PROBLEMS OF WORLD-ECONOMY

BY
V. G. KALE, M.A.

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University of Madras

SIR WILLIAM MEYER LECTURES

1931

PROBLEMS OF WORLD ECONOMY

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BY

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PREFACE.

I delivered my Sir William Meyer Lectures at the Madras University in the first week of February this year, and these are now being presented to the public in book form. While seeing them through the press, I have made only a few additions in order to bring some of the material up to date.

For some time past, I have devoted a good deal of attention to the subject of *world economy* or *weltwirtschaft,* which has been developed into a new discipline in economic science by some German scholars; and as it is intimately connected with the distressing crisis through which we are passing to-day and in the understanding of which every one is deeply interested, I felt it would be extremely useful if I selected the Problems of World Economy as the theme of my Lectures at the Madras University. I am profoundly indebted to the German authors who inspired me and on whose writings I have freely drawn, particularly to Dr. Bernhard Harms of the Keel University, from whom I have received much kind assistance.

My best thanks are due to the University of Madras for this opportunity afforded to me of pointing out to Indian students a new avenue of economic thought and of dealing with a topic of such immediate and universal interest as the prevailing crisis. In the presentation of facts and the discussion of theories in the course of the Lectures, my outlook has been that of a detached inquirer; and if my views in certain important respects,

e.g., nationalism and protective tariffs, do not seem to agree with conclusions which have now become almost conventional, it is due to the fact that I have had vividly before my eyes conditions in India as well as those in the West, which is to-day the heart of modern material civilisation.

"Durgadhivasa," Poona 4. V. G. KALE.

17*th July*, 1931.

PROBLEMS OF WORLD ECONOMY.

I

The Economic Crisis.

The serious economic crisis through which the world has been passing during the past few years, has now reached a stage of acute depression, and one is left wondering whither things are drifting and what the end of it all is going to be. The gravity of the situation has been brought home even to the poorest cultivator in India who finds that the prices of the foodstuffs and raw materials he raises, which were already low, now hardly enable him to cover the cost of production. The obvious effects of this state of things will be that the indebtedness of the agricultural classes will grow worse; the purchasing power of the mass of the population being reduced, the industries and the trade of the country will feel the pinch of depression more severely; revenues of government will fall off; beneficent national expenditure will be reduced; the burden of taxation will be more heavy and painful; and public borrowing will expand.[1] The depression has dealt a staggering blow to the community which was not prepared for the suddenness with which it came. The acuteness of the disaster may pass off in time, and though the recovery may turn out to be a difficult process, the really vital problem is to ascertain as to where and when economic conditions will stabilize

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[1]These effects will be found clearly reflected in the general and the Railway budgets of the Government of India and also in several Provincial Budgets.

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themselves; because it is now generally recognized that the crisis we are passing through, is not a local or a national phenomenon but that it holds the entire world in its grip. It is well-known that the prices of our staple crops are influenced as much by conditions as to supply and demand prevailing in world markets as by local causes and that the state of our trade and industries cannot, therefore, be dissociated from the economic situation of other countries, western and eastern. Economic conditions are indeed not the same or similar all the world over, and the degree of industrial depression prevailing in different countries varies. France in Europe and the U.S.A. in America may be better off than other nations in the matter of the stress of the crisis. The malady, however, is all-pervading, and although it is possible and even necessary for each nation to take what measures it deems suitable, for affording relief and ameliorating the sad plight in which the large masses of the people find themselves, a more or less permanent cure must be sought in a knowledge of the root cause or causes of the trouble and in making such adjustments in economic organization as may show themselves to be essential for bringing back to the afflicted world the economic health it has lost.

The symptoms of the world's malady are familiar enough. Persistant unemployment among workers which has assumed vast proportions, estimated at about a crore and a half to two crores of persons,[2] in western

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[2]The Unemployment Committee of the International Labour Office supplied the following facts and figures in January, 1931:—

It should be mentioned that unemployment has grown steadily worse during the last few weeks. According to the most recent figures

countries alone, low prices of agricultural produce with a comparatively higher level of the prices of finished goods, the difficulty of finding markets for commodities which can be turned out with the available productive capacity, and the consequent all-round depression that broods over the faces of the earth, throwing out of gear the whole commercial and finanacial machinery of the world, constitute the outstanding features of the sad picture of the present crisis. Temporary expedients have been and are being adopted for relieving unemployment by the outlay of national funds in public works, calculated to furnish opportunities of occupation to those who are out of work and have to be supported at public cost. Subventions to industries and export credits to traders may similarly be used as measures of relief. But the main question to face here is, can such expedients be effective in enabling nations to tide over the world crisis through which they are passing? Is it not true that the present phase of acute depression is only a trouble that is superimposed upon an already-existing deep-seated disease that will yield only to radical remedies? It may be suggested that this is a case of गंडस्योपरि पिटकः संवृत्तः[3] (a pimple has

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there are now in Europe alone over 11 million workers wholly or partially unemployed or nearly twice as many as at the same date last year. The figures for countries outside Europe are very incomplete. Taking only the United States, the estimates made by economists and others range from 5 to 10 million. In the whole world, the number of unemployed is probably round about 20 million.

In Germany there are no less than 4½ million unemployed, in Great Britain 2½ million, in Italy over half a million, in Poland over 200,000, in Czechoslovakia over 150,000, in Japan nearly 400,000, France, where hitherto the number of unemployed had been insignificant, is also beginning to show signs of slackening industrial activity.

[3]Kalidasa's *Sakuntala.*

grown over a boil). More than twelve years have elapsed since the close of the great war, and it was expected that normal pre-war conditions would be restored at the end of this long period. But there are no traces yet of the process of readjustment making decisive headway. Prices have indeed gone back to pre-war levels in many instances, but this seems to have worsened, instead of improving, the situation. It will, therefore, be necessary to inquire into the nature of the present crisis and to ascertain whether and in what respects it differs from the phenomena with which text-books on Economics ordinarily deal. Economists have given various explanations of crises, and numerous theories have been advanced in connection therewith. A review of these theories will prove instructive, and it will be possible for us to see how far a temporary economic dislocation consisting in overproduction of some or most commodities, or their underconsumption or a general mal-adjustment between supply and demand, affords a satisfactory explanation of the protracted, weary struggle. As Sir Arthur Salter, Director of the Economic Section of the League of Nations, put it in the *London Times* the other day, the prevailing universal depression is "an example of the paradox of general plenty causing general impoverishment".[4] He went on to add, however:—"General overproduction, the economists say, is impossible, but on the condition, that there is a satisfactory system to secure exchange, distribution and adjustment—and that condition is not now fulfilled".

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[4] *The Economist*, London, December, 13, 1930.

This would suggest that the present persistent agony is not the ordinary crisis, conditions in which automatically adjust themselves in time and in which the working of economic forces may be left to restore the disturbed equilibrium. There can be no doubt that the unhappy economic position in which the world finds itself to-day, is a legacy of the great war, and it appears to be only reasonable to believe that a clear and a useful understanding of the origin and the nature of the crisis as well as of the proper remedies for it, may be obtained through a study of the changes which have occurred in national economic organization and in international economic relations as a direct result of the prolonged destructive activities in which a major part of the population of the world was directly and indirectly involved. To put the question in a specific form, it may be asked, "are the changes in the body economic, for which the war must be held largely responsible, only of a superficial character, affecting certain aspects and sections of economic life and calculated to spend their influence in a measurable period of time, or are they of a structural nature which have altered the very basis of economic society and need different treatment? As a German thinker[5] points out, the present is not a crisis of the usual periodic type and that it arises from historical and, so to say, accidental causes and therefore requires special diagonsis and treatment. He asks whether the crisis is merely "konjunckturell", that is, has reference to the temporary or passing phases of the world's markets or is "strukturell" and

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[5]Bernhard Harms: *Vom Wirtschaftskrieg zur Weltwirtschafts Konferenz.*

therefore affects the economic constitution or organization of the world. To elucidate his point, he goes on to state that if, for instance, the former were the correct explanation of the crisis in the British textile industry, then the remedy would certainly be to extend public support to those engaged in the industry, particularly the unemployed workers, in the temporary dislocation of business. But if the latter is the correct diagnosis, long-sighted measures would be necessary with a view to bring about a suitable internal readjustment of the organisation of the industry. In fact, this explanation having made an appeal to the mill-owners in Lancashire, they have already taken in hand the question of a wholesale reorganization of the industry.

Though some thinkers and businessmen are inclined to emphasis one or another cause as being specially responsible for the world's economic ills, e.g., the inadequate supply of gold, credit and means of payment, or the low purchasing power of the mass of the world's population, there is a growing volume of opinion that forces of a universal character and of fundamental import are and have been at work in producing the present situation. The matter was clinched in a recent article in the London *Economist*[6] where the following sentences occur:—"Everywhere men continue to ask what are the causes of this depression? In what pre-existing conditions did its origin lie? What factor or combination of factors, gave an impetus to its beginnings? For though special causes operative in particular countries may have varied locally the intensity of the slump, the almost world-wide range of

[6] 13th December, 1930.

its incidence suggests that forces of a universal character must have been at work." The fact that most of those who have given serious thought to the subject, have to put forward a long list of varied circumstances and numerous causes which, taken together, are supposed to account for the prolonged depression, leads to the self-same conclusion. Take for instance the following items in such a catalogue:—(a) a general increase in productive capacity which has temporarily outstripped the rate of increase of population and of the capacity for consumption, (b) the prolonged *malaise* caused by political unrest, (c) the closing, partial or complete, of some of the world's most important markets, (d) the slow adjustment of national to the international economic situation by reason of the varied bases chosen for monetary stabilisation, (e) barriers to enterprise and investment imposed in many places by an unusual spread between long and short-term money rates, (f) the heavy fall in the price of silver which has further reduced the purchasing power of one-third of the world's population, (g) the forcing on the world's markets of large quantities of grain, raw materials and semi-finished products by Soviet Russia at prices below the normal cost of production, (h) the levying in many countries of very heavy taxation to meet unprecedented national and international indebtedness. These various factors, taken together, as working concurrently and acting and reacting upon one another, constitute a complex phenomenon of national and international significance, which in spite of its vastness and diversity and of its world-wide magnitude, contains elements of unity and definiteness.

The modern economic system, known as capitalism, is characterised by what is called an "international division of labour", and is based upon industrial specialization and internal, regional or international exchange conducted on a large scale. Intensive competition for securing cheap and adequate supplies of raw materials and food stuffs and a constant scramble for the economic control of markets for finished products, have driven nations to a state of dependence on other countries for maintaining their standards of wealth-production and the standard of living of their peoples, while on the other hand, the difficulties created by dependence in respect of the supplies of raw materials and of markets have been overcome by monopolistic organizations like national and international cartels. As the ideal of national economic self-sufficiency is regarded as neither attainable nor desirable, a system of international exchange has developed on the principle of the division of labour and on lines indicated above. The exchange taking place between the nations of the world, considered as a unit, is indeed not free and unfettered. Political considerations, the needs of national defence and measures taken with a view to ensure the maintenance and promotion of national culture and prosperity, interpose obstacles in the path of the free movement of capital, labour and consumption goods over the world. As a result of the constant play of these conflicting forces, a kind of a system or equilibrium of international economic relations may be seen at any given moment and such world organization had been developed in the course of years; but the war and the settlement which succeeded it, dealt a rude blow to the superstructure.

In the opinion of some, the war was predominantly economic in its motive, but in any case it has undoubtedly had disastrous economic results. It has certainly brought about what appear like revolutionary economic as well as political changes. The Bolshevik revolution in Russia, its communistic experiment and its practical isolation from the rest of the world, the redistribution of national territory in central Europe and the break-up of its economic unity, the loss of their colonies by the defeated powers, the shifting of the financial centre of gravity from Europe to the U. S. A., the huge debts which European nations owe to the latter country, the enormous amounts of reparations which Germany has to pay to the conquerers, are some of the most striking effects of the war which leap to the eyes. Add to this the ardent spirit of nationalism which has caught hold of the minds of people in several parts of the world in Europe and outside, and the political and social unrest which prevails there, and you have a picture of the disturbed and distracted condition of the economic relations of the populations of the earth as compared with what it was before the war. A comparative study of the economic organization of nations in relation to one another, that is, of economic international relations as they stood before the war and of the changes and developments which have occurred in them since then, may be expected to throw interesting and useful light upon the critical conditions of disequilibrium and maladjustment which widely prevail in the world to-day. Such a study is calculated to indicate the true causes of the present crisis and the directions in which the solution of the difficulties of the world may be sought.

The theory and the practical problems of international exchange are discussed at length in all economic text-books. According to the Mercantilist doctrine, unrestricted foreign trade was detrimental to the interest of nations; and the intercourse had, therefore, to be deliberately controlled and regulated in well-determined proper channels. Adam Smith and his followers demonstrated the fallacies underlying this line of reasoning and demonstrated how the free movement of capital, labour and commodities made for efficiency of wealth-production and for the prosperity of all people concerned. While this doctrine held sway over the minds of economists and statesmen, it was, however, discovered and maintained with a good deal of convincing argument that there was no complete analogy between internal and international division of labour, that the advantages of free exchange did not flow evenly over the world which was divided into independent and self-conscious nationalities and that in international division of labour and exchange there was no co-ordinating authority like the State in a nation, to correct inequalities, to protect the weak against the strong, to check the evils of unscrupulous competition and generally to promote the efficiency and the standard of living of the mass of population grouped in an organized community with a common culture, laws and destiny. National governments, therefore, deemed it necessary to adopt protective measures; and tariff barriers came to be set up almost all over the world. This did not, of course, stand in the way of the improvement of the means of transport and communication; and in spite of tariff walls, the nations

were actually bound together with increasingly closer ties of trade and the growing flow of capital and labour. The Historical School, which had not much love for economic theory, carried on extensive investigations into the problems of economic evolution; and when theory was enthroned once more in economic science it was duly adjusted to revised conceptions. A descriptive and theoretical study of these international relations is found in all noted text-books of Economics. It is, however, interesting to know that this theme has been made the subject of a special discipline by a school of economists, particularly in Germany, e.g., at the Institute for "Weltwirtschaft and Seeverkehr" at the Kiel University and by the "Deutschen Weltwirtschaftlichen Gesselschaft", Berlin; and a large volume of very instructive literature has grown round the subject. This new discipline is called "Weltwirtschaft" or world-economy and consists of a study of interregional and international economic relations.

Some German text-book writers divide Economics under the headings, individual economy, national economy, world economy and state economy. The propriety and the utility of this method of division has been disputed. As regards world economy, it is pointed out that it is already covered by the discussion of 'social' or 'national' economy in as much as no description or discussion of either individual or social economy can be complete unless the relations of these with the outside world and other economic groups abroad are taken into account. The theory of international trade thus finds an honourable place in all

early text-books. In any case, it is contended, a world economy cannot stand on the same scientific footing as a national economy or the economy of a group or community bound together by ties of a common government and common laws as well as of exchange.[7] Whatever truth there may be in these objections, there can be no doubt about the value and the importance of a special study of the economic relations which subsist between nations. This is particularly so in view of the steadily growing complexity of international relations and the increasing interdependence of peoples on one another in the matter of the satisfaction of their wants. Triumphs of physical science and of mechanical inventions are every day bringing the peoples of the earth closer together and making them, to a certain extent, sharers in one another's weal and woe. In these circumstances, it appears to be highly desirable that international economic relations should be investigated and studied as a special discipline and that the results obtained and conclusions reached, should be utilised for the proper understanding of the forces and the movements which make for the moral and material improvement of mankind. These relations are, no doubt, complicated by political measures and national considerations which very often powerfully influence them. But that is all the greater reason why economic facts relating to international intercourse should be isolated and their significance for politically organized communities should be brought into prominence. For the moment, the question of logical division and of scientific methods may be left aside, and it should be

[7] Karl Diehl: *Theoretische Nationalokonomie*, Vol. I.

borne in mind that we consciously or unconsciously deal with world economy in our discussion of economic topics when we speak of "world" supplies of certain commodities and the "world" demand for them and of "world markets" and of "world" prices. Some of the most important problems of national interest can be fruitfully tackled only when their international aspect is constantly kept in view. While it will be an exaggeration to say that considerations of international interest are or can be decisive in the determination of national economic policies, the latter have, nevertheless, to be framed in the light of external conditions. It is needless to add that for the investigation of the problem of the present universal crisis which we have taken in hand, a discussion of the position of world economy as it stood before the war and as it stands to-day, is essential, nay indispensable.

It was long a common belief among intelligent people that owing to the economic interdependence of nations and to the extremely complex character of modern world economy, a war between civilized countries was unthinkable in the twentieth century. It was thought that even if a war was commenced it would soon be given up with the experience that it would not pay even the victor to carry it on. As Prof. Bowley[8] points out, in the last war, "the martial spirit of nations was easily roused, and each nation expected to recoup its losses from a defeated enemy," and that "it was not till some years after the armistice that it

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[8] *Some Economic Consequences of the Great War.*

was discovered that whoever wins on the field, both sides lose in wealth." All the same, the hostilities demonstrated that in a modern war the resources necessary for carrying it on, can be mobilised with comparative ease, and it was proved that "economic conditions and requirements do not prevent war." The belligerent powers did not, however, fail to realise at last that war is an extra-ordinarily costly business and that the recuperation of its direct and indirect losses is a lengthy and painful process. It has also been realised that however necessary and efficacious the efforts to restore normal conditions made by national governments may be, concerted international action is essential for solving many of the problems of common interest. Though very few may now be found to believe with the advocates of the policy of free trade of the middle of the last century that it is an unfailing agency for the preservation of peace and harmony among nations and though, on the contrary, it may be contended with equal force that economic understandings are not possible without political security and confidence, at least the interdependence of the two are widely recognised with the experience of the past few years. The League of Nations was deliberately designed as an instrument suitable for this purpose, and it has taken in hand several problems of vital international importance. A permanent international organization with a decisive international outlook has been established to replace the old haphazard and intermittent attempts at conferences to settle particular questions, *e.g.*, those connected with silver, sugar, etc. The economic section of the League and the International

Labour Office have done much for tackling problems in the solution of which international understanding and action are indispensable.

During the past few years, it has been borne in on the minds of businessmen and statesmen in the west that efforts of individual nations, industries and interests to improve the economic position, however necessary and effective in themselves, cannot go very far in achieving the object in view and that they must be accompanied by some collective and group action. International cartels, *e.g.*, the European Steel Cartel, international conferences like that of Genoa, for discussing the action that may possibly be taken to restore the currency and exchange stability of the world and lastly, the World Economic Conference of Geneva of the year 1927, are the best illustrations of the need widely felt for concerted policies for solving problems of universal interest. The whole economic position of the world has been so complicated by individual, collective, national and international measures and policies that it has had a mystifying effect on those trying to understand it, and it has been extremely difficult to see the wood for the trees. The effects of "rationalization" of industry, of labour movements, group understandings among capitalists and financiers and State actions to restrict freedom of movement, are bewildering in their complexity, and hence the variety of solutions that have been proposed and attempted. While a nation like the U. S. A. can apparently afford to plough its lonely furrow, nevertheless with an eye on Pan-American unity, and Soviet

Russia is left to pursue its five year economic plan, the Pan-European movement is intended to cure the economic disorganization into which the European continent has been thrown by the war settlement and the after-war unsettlement; and the statesmen of England and of the British Dominions have been discussing measures with a view to improve and strengthen the Empire's economic position by means of the development of Imperial resources through fiscal preferences and mutual aid in other respects. The proposal which M. Briand recently made in favour of the fiscal and economic union of Europe and the response it met with at the hands of the Powers, is an index of the political and other difficulties with which the problem is surrounded. It is not only the nationalist sentiment that stands in the way of economic co-operation and unity. So long as national groups stand as independent communities, their peculiar needs cannot be satisfied and their problems cannot be solved by measures which presuppose the existence of a world community of culture and material interests. It must be emphasised that while international co-operation is essential for national well-being and progress, it has its limitations which must be clearly recognized. For instance, during and after the war, new industries were started and old ones were expanded in certain parts of the world. These have very largely ousted their former competitors from certain markets. The cotton textile industry of India and Japan is an example of this development, and Lancashire feels the pinch of the Eastern competition. Rationalization and reorganization, coupled with open markets, are remedies favoured by the friends of

Lancashire who resent the protectionist policy adopted by government in this country, while others would like to have free trade within the Empire with a tariff wall raised against the rest of the world. The part which national and imperial considerations have played and are playing in that connection, is too well-known to need mention in this place. The Swadeshi and boycott movements in India, it should, however, be pointed out, have a peculiar significance in this respect, which must not be lost sight of. Predominantly agricultural countries in Europe as well as in Asia, nations which are politically weak and dependent and countries with rising and partially developed industries, occupy a special position with regard to fiscal policy and cannot, therefore, be treated on the same footing as the industrially advanced and powerful states.

The possibilities and limitations of international co-operation in overcoming the prevailing economic crisis, will be found well illustrated in the discussions and conclusions of the World Economic Conference held at Geneva in 1927. Be it noted in passing that in deciding to call this Conference, the Assembly of the League of Nations declared itself, in 1924, "firmly resolved to seek all possible means of establishing peace throughout the world" and affirmed its conviction that "economic peace will largely contribute to security among the nations." The Conference was likewise expected to investigate the difficulties which stood in the way of the revival of general prosperity and to ascertain the means of overcoming the difficulties and of preventing disputes. The effectiveness of economic

means to establish peace in the world may be doubted, and the failure of the Powers to reach an agreement on the question of the limitation of armaments, did certainly not improve the prospects of world peace if it did not represent a set-back. The conferences held and the investigations made under the auspices of the League of Nations, have nevertheless served the useful purpose of bringing to the notice of people the supreme necessity of international co-operation for removing the obstacles which impede the path of economic revival and the grave risk of letting things drift to the ruin of modern civilization. Such meetings are helpful in removing suspicions and misunderstandings and pave the way for concerted action calculated to promote common good. The Geneva Economic Conference strongly recommended the urgent necessity of nations lowering their tariff walls and facilitating international exchange. The latest reports from Geneva in this respect are, however, far from encouraging. It is stated that 29 governments had accepted the principle laid down by the Conference of 1927 but that despite promises to implement them, the resolutions are still unfulfilled. That Conference did not touch two questions of vital importance to the economic rehabilitation of the world, *viz.*, German reparations and the problem of gold, currency and prices. The former question was probably excluded from the purview of the Conference because it was being separately dealt with and primarily because it referred to a very delicate and vital spot in the scheme of the reconstruction of Europe, sanctioned and sanctified by the treaty of Versailles.

Whatever the political rights and wrongs of the European settlement may be, looking at the question of German reparations from the purely economic point of view, one cannot but be struck by the utter disorganization into which the whole economic system of Europe has been thrown by the payments which Germany has to make to the Allied Powers for a series of years. The Young Plan is now in operation; and though an improvement over the Daws scheme, still, the arrangement is bound to force Germany's internal economic system and its exchange relations with the outside world into artificial channels—a result which is not calculated to render easy the work of bringing order out of the present chaos. Germany has suffered along with the other belligerents and has to recoup her own losses, and at the same time, she must produce an annual national surplus equivalent to the annuities and instalments which have been fixed under the Young Plan. It is true that the payments have been fixed on the basis of a careful estimate of Germany's capacity to pay, but the correctness of the estimate has been seriously doubted. The very fact, however, that a large annual surplus in her national dividend has to be placed at the disposal of foreign nations means that there has to be a corresponding amount of a favourable trade balance. Payments to foreign countries can be made, of course, only in the shape of goods and services; and in view of the keen international competition which prevails to-day in the markets of the world and in view, further, of the territorial losses which Germany has had to put up with, the creation of credits abroad through a favourable trade balance cannot but be an extremely diffi-

cult task. Germany must produce commodities in large quantities and must also sell them cheap abroad. Then the credits thus created will be utilized to meet the demands of the Allies for reparations. This, however, requires long-term and short-term capital, the inflow of which must offset the outflow of wealth to some extent, and must consequently be severely restricted in amount. The Bank of International Payments which has been established to facilitate the transfer of reparations to the creditors nations, in accordance with the quotas fixed, may be expected to lubricate the machinery of payments, but it cannot provide the capital required by Germany to expand and improve her production. Germany's payments of reparations have thus introduced enormus complications into the economic system of Europe and of the world, and the balance of world trade and the equilibrium of world economy cannot be satisfactorily restored to a healthy condition unless the whole problem is boldly and impartially faced. There is an impression that the question cannot be reopened as on the working of the Young Plan hangs the scheme of inter-allied debts and the debts of the Allies to the U. S. A. On the basis of statistics of indebtedness between the allied and associated countries, incurred for the purposes of the war, compiled by Mr. Keynes, Prof. Bowley computes that if Russia is left out of account and all the other debts are taken at their face value, on the balance, £1852 million was due to the United States, £330 million due to the United Kingdom, £863 million due from France, and £1319 million from other countries.[9] He

[9] *Some Economic Consequences of the Great War.*

goes on to say that if the United Kingdom had cancelled its balance and Germany paid through the other European countries £92 million annually to the United States, all would have been cleared at 5 per cent. or if all debts had just been cancelled, as being part of the pooling of the resources of the Allies, German reparations could have gone directly to make good actual destruction. This is, however, an issue of first class political importance for Europe, and it has been discussed largely on that basis. Consequently, to attempt to solve the problem of Europe's rehabilitation merely by means of fiscal rearrangements is like an effort to put down a big fire by throwing at it a few bucketfulls of water.

While the world was slowly recovering from the disorganized economic position which the war had directly or indirectly assisted to create, a heavy fall in the price level suddenly intervened to retard progress and, for the moment, to accentuate the difficulties which were being faced on all sides. The depression could be produced either by a relatively large wealth-production or a relatively small consumption or by an inadequate supply of the means of exchange, *i.e.*, monetary stringency. Some thinkers like Prof. Cassel and Mr. Keynes some years ago, predicted a shortage of gold supplies and as a consequence, a restriction of credit and of monetary circulation. They argued that the world's production of gold could not keep pace with the demand for it, and unless the available monetary supply of gold was conserved and used most economically, a slump in prices and industrial depression were bound to result, to the utter embarrassment of all coun-

tries which were bravely struggling to rehabilitate themselves. This question of the relation of the world supply of gold and the prevailing industrial depression and the recent slump in prices, has been taken up for serious discussion by the League of Nations, and the remedy proposed is again of international import. During and after the war, currency inflation on a larger or smaller scale was common in all countries except perhaps the U. S. A., and prices rose to different high levels in different countries, with consequent confusion in foreign exchanges and in the organization of the trade and industries of the world. As a preliminary step to recovery, it was felt that the currency systems of nations which had widely departed from the pre-war gold standard, must be restored at suitable ratios. Great Britain gave the lead in this matter by restoring, in 1925, the gold standard at the pre-war ratio between the pound sterling and the dollar, which latter had remained on its old normal gold basis. Other nations followed suit, and most of them had to resort to devaluation of their currencies in fixing their legal relation to gold. This process of going back to the gold standard necessitated deflation and the maintenance of a certain ratio between currency circulation and the gold reserves available to support it. It is now contended that the demand for gold aroused by the needs of the gold standard and the expanding requirements of the world's money markets, puts a severe strain on the available monetary supplies of the yellow metal. It is likewise predicted that unless strict economy in the use of gold is practised by means of the close co-operation of the central banks of the world, the eco-

nomic prospect will get worse instead of improving. The gold bullion standard was adopted in India largely with a view to contribute to the economical use of the monetary supply of gold, and now the United States and France are being accused of following a selfish and short-sighted policy of accumulating unnecessarily large reserves of gold and thus denying to the other countries the gold they so badly need and consequently of accentuating the world slump. The causes of the maldistribution of monetary gold among the nations of the world and the question of its proper distribution and rationing through the co-operation of the big central banks must be examined, particularly in relation to the present crisis and to the possibilities of international action in the matter, to meet future developments. The large drop in prices which has accentuated the economic depression during the past year, must likewise be considered in this connection and especially in its relation to the situation in India.

This is a rough outline of the discussion of the topics which it is proposed to deal with in the course of the present series of lectures, and it will now be convenient if an indication is given of the order in which the subjects to be handled will be taken up and of the manner in which they will be made to fit into the general scheme of the study of world economy and the crisis which has overtaken it. The second lecture will be devoted to a scientific enquiry as to the nature of crises, and for this purpose, a brief review of the various theories which economic thinkers have advanced with respect to that phenomenon, will be necessary. An

attempt will be made to distinguish between the bigger and the more destructive crises and the trade fluctuations which are now almost a common feature of modern capitalistic form of society. The practical importance of this kind of distinction as well as its scientific significance will be pointed out, and the bearing of this theoretical discussion on the realities of the present economic position in the world will be indicated. The third lecture will be occupied with the important question of the nature of world economy and the scientific propriety of making it the subject of a separate discipline in the special domain of Economic Science. The possibilities and the limitations of an international outlook on economic life will be clearly brought out and the mutual relation between national and international economy will be critically examined. The study of world economy on systematic lines and on a comprehensive basis with a view to discover if there are any general principles underlying international economic intercourse, is, so to say, a recent adventure, on the part of certain thinkers on the continent of Europe, and it deserves particular attention and has assumed considerable importance on account of the world crisis. In the fourth lecture, the proceedings of the World Economic Conference of Geneva will be passed under review in order to ascertain the manner in which it tried to deal with the main problem it had met to discuss. The opportunity will be availed of to show how Western capitalism stands to-day and to compare its present position with what it was before the war. The non-European world has moved a great deal since the war and the changes which have occurred

in its economic organization and activities will demand attention. The prospect of the nations of the European continent and nations outside Europe will be likewise carefully viewed and the place of the latter in world economy will be ascertained. The fifth lecture will discuss the remedies which the Geneva Conference proposed for the economic improvement of Europe and will attempt to find out how far the measures suggested are likely to assist in the process of world's recovery. The problem of German reparations will here be accorded its proper place and its bearings on the present policy of the leading nations of the world will be discussed. The question of tariffs, as it affects European countries, large and small, and the prospects and the attitude of the industrially backward countries in Europe and outside it, under the regime of a dominant western capitalism without fiscal protection, will be carefully considered. The origin and the working of huge capitalistic and monopolistic organizations like cartels, which exercise tremendous international influence, will be described and these will be studied from the points of view of the interests of national and world economic organization. It will not be inappropriate in this connection to take note of the radical changes which have occurred in the industrial activities of the different countries in the west and in the east since the war and of the manner in which the conditions of the pre-war international division of labour have been modified. In the sixth and the last lecture, an enquiry will be made into the remarkable fall in prices which has taken place all over the world and has worsened the economic situation which was already unsatisfactory as

a consequence of the direct and indirect influence of the conditions of the war time and the period of boom which immediately succeeded the conclusion of peace. The problems of national currencies, of the restoration of the gold standard and the relation of the present distribution of gold among the countries of the world to prices and industrial depression, will have to be discussed. While the problems of world economy are under discussion in the course of all these lectures, the situation in India and its present and prospective place in that economy will necessarily claim attention in appropriate places. The last lecture will likewise collect all the threads of the earlier discussions and bring under special review the prevailing conditions in India, with a view to bring them into proper relation to the economic position in the world outside.

II

THEORETICAL AND PRACTICAL ASPECTS OF CRISES.

The central theme of the present series of lectures is "world economy", and it is proposed to utilize the experiences of the prevailing crisis to elucidate the exposition of that subject. A study of economic international relations is bound to be facilitated by an enquiry into the causes, the nature and the scope of a crisis which has overtaken the whole system of the economic transactions which normally take place among the nations of the world. The normal economic equilibrium is occasionally disturbed, with serious consequences to certain interests, owing to a mal-adjustment between supply and demand in the various fields of business activity,—trade, industries, speculation on the exchanges and so on; and the effects of the disturbance may be felt beyond the actual area of its origin on account of the delicate and comprehensive nature of the balance of international relations. But these occasional storms pass off without doing serious damage to the world's economic structure, and business soon resumes its normal course through the old, accustomed channels. These crises are restricted as to their duration, extent and incidence and do not involve structural destruction and consequently do not necessitate a new orientation of economic policy or a reconstruction of the economic fabric. Even businessmen whose vision is apt to be confined to their narrow spheres, have now come to recognize that the pre-

sent crisis is not a phenomenon of this mild type and is a world catastrophe and is intimately associated with violent changes in the complex mutual relations of the constituent parts of world economy, directly traceable to the effects of the Great War.[1] It will, therefore, be appropriate, before taking up the discussion of the problem of world economy, to get out of the way the question of the nature, the scope and effects of crises and trade fluctuations about which there is considerable divergence of opinion, and a brief review of the history of the theories regarding crises, is calculated to be a helpful introduction to the discussion of the larger subject.

An economic crisis arises from a sharp and decisive and more or less durable change in the mutual economic relations of the community—a serious disturbance of the prevailing economic order or of the equilibrium between production and consumption, between the supply of goods and the demand for them. The disturbance may be restricted to certain industries and trades and to certain regions or it may be general and wide-spread in extent and incidence. Similarly, it may be due to natural causes, e.g., famines in India or may be caused by changes in economic equipment and organization and

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[1]This peculiarity of the prevailing crisis has now been widely recognized by practical men of affairs as well as by academic students of economic conditions and it is being emphasised with growing insistence. As a very recent expression of opinion on this subject we may quote here the views of Mr. J. Beaumont Pease, Chairman of Lloyd's Bank:—"Neither the enormous destruction during the war nor the greatly increased productive capacity of the world has yet been caught up. Signs of depression and want of confidence are seen on every side. The numbers of unemployed have already reached alarming figures in this country, and are increasing elsewhere. Low prices, coupled with high costs of production, form a most unpromising anti-thesis. The free flow of trade already impeded by every kind of obstacle is still further impeded and diverted from its natural course by huge international payments which have no commercial significance or basis whatever."

by miscalculations in estimates of supply and demand. The modern system of capitalism is based on specialization and on production in anticipation of demand and on a large scale. As Henry Clay[2] puts it, the disorder and dis-equilibrium or "over-production and under-production occur because supply has to be adjusted to demand ahead of demand on an estimate of it, not in response to an ascertained and definite demand." He goes on to say:—If the estimate is wrong, the price, on the basis of which production has been carried on, will not be realized, and the even flow of production will be dislocated: "It is the relation between the "anticipated" price and the "realized" price that matters." Taussig[3] summarises the features of crises in the following words:—"In sum, the causes of industrial depression seem to be reducible to various kinds of mal-adjustment, all connected with the intricate division of labour and the long stretch from production to consumption. There is likely to be mal-adjustment in the planning of some particular kind of capital, railways, or electric enterprises, or textile mills. There is likely to be mal-adjustment in a greater addition to the total of the community's capital than is justified by the total of its available savings. There is excess or deficiency in the stocks of dealers and middlemen. There is accentuation of the whole series of misfits because of the psychological factor. The greater the mal-adjustment of all sorts, the more prolonged and painful will be the ensuing process of readjustment and recovery." Seligman[4] reduces the

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2 "Economics for the General Reader."
3 "Principles of Economics."
4 "Principles of Economics."

phenomena of crises to a problem of capitalization. In good times industrial enterprises are financed on a capitalization proportionate to the high profits anticipated. The hoped—for earnings are not realized and the over-capitalized values have to be adjusted to the market level on the basis of actual earnings, which process involves losses. "Over-production", he points out, "may indeed accompany over-capitalization, but the emphasis is to be put on the discrepancy between the investment and the returns."

Disturbances in economic equilibrium are distinguished according as they are general or partial, affecting only certain spheres of economic activity. Thus there are monetary, financial, exchange and agricultural crises; and crises are called 'endogenous' if they arise from changes in the economic organization itself and 'exogenous' if their origin lies out of it, e.g., war. There are ups and downs in the activities of economic life of a modern community, and these "trade fluctuations" display a continuity of action. The wave-like movement, the see-saw of prosperity and depression, has become a common feature of modern industrial life. These regular movements and the partial disturbances referred to above, furnish interesting material for investigation and study and have been elaborately dealt with in recent years. Of no less importance from the point of view of social or national economy are, however, the general crises which proceed from and involve radical and almost revolutionary changes in the economic organization of a community. Though the word crisis is loosely used in Economics as well as in common speech, these are crises in the strict sense of the word.

"Here we have to do not with the regular return of periods of unfavourable economic conditions in the wake of favourable and good times, but we have to do here with the coming to a head of extraordinarily bad economic circumstances."[5] They are historic occurrences, occasioned by special circumstances such as are called into existence by the introduction of technical devices which have a revolutionary effect upon industry and trade, by the reorganization of the system of transport, by the discovery of new sources of the supply of gold or by the favourable conditions which succeed the close of a war. It is thus necessary to distinguish clearly between the state of depression which ordinarily follows a boom and one that results from a serious dislocation of the economic organism. The depressions may even be described as normal since "normal" conditions in economic life do not presuppose a perfect equilibrium between demand and supply but only represent wave-like movements, transitions from good to bad times and *vice versa*. Sometimes the movement from a boom to a depression is sudden and may deal a severe shock to the economic order, giving rise to wide-spread and radical changes in the industrial and trade organization, and then the depression may attain the grave proportions of a crisis. According to Heller[6], while a regular depression is caused by changes in the economic order, which are reflected in market conditions, crises are characterised by these disturbances and also by the dislocating and destructive effects

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[5]Karl Diehl: "Theoretische Nationalokonomie", Vol. II.

[6]Wolfgang Heller: "Die Entwicklung der grundprobleme der Volkswirtschaftlichen Theorie."

on the community of the close association of the various limbs which make up the economic organism.

Certain economists regard the condition of prosperity of the boom period as a state of disease. As physicians call the turning point in the illness of their patients a crisis which may lead either to death or to the beginning of recovery, so these economists use the word 'crisis' to indicate the turning point in the boom and its conversion into a depression. Spiethoff,[7] for instance, defines a crisis as "the short space of time during which, under extraordinary circumstances, the change of a diseased state passes into the normal condition." It will be readily conceded that a boom is an unusual and far from healthy condition of the body economic, though the older economists held the view that only the state of depression can be so called. But though the depression succeeding the ordinary conditions of prosperity may be characterized as 'normal' as explained above, the state of depression which follows a crisis, is undoubtedly abnormal. The latter depression lasts longer and is too serious, extensive and far-reaching in its consequences to be easily or quickly overcome or remedied, as unfortunately our experience of the crisis of the past decade only too convincingly demonstrates. The prevailing world crisis has pursued a course which was marked with the familiar features of the phenomena of the ordinary trade fluctuations. There was thus the apparent and deceptive prosperity on the outbreak and during the continuance of the war when crores of rupees were being daily spent by belligerent governments on the

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[7]Refer to Heller and Karl Diehl above.

destructive operations of armies and fleets, when industries engaged in the manufacture of munitions were extended and enjoyed prosperity, when the demand for labour was more than could be satisfied, when wages, rates of interest and rents and profits were abnormally high, when prices steadily soared to unprecedented heights and when in spite of state restrictions on the supplies of certain commodities, known as war necessaries, there was a general air of prosperity all round. Hopes were raised that after the conclusion of the peace, high prices and high incomes would continue; and industrial enterprises were launched or pursued to make hay while the sun shone. But the prosperity was short lived, the inevitable crash soon came and a period of depression succeeded, the end of which is not yet in sight.

All conditions characteristic of the depression which supervenes on the collapse of the superstructure of the temporary boom, were present in this world catastrophe. Belligerents like Germany and Austria and, to a smaller extent, the Allied nations and the neutrals were overtaken by the consequent crisis. Inflated paper currencies, restricted credit, reduced and dull trade, weak and erratic foreign exchanges, factories closed or working short time, unemployment, lower purchasing power and standard of living—all these features were there. Then started the process of recovery which was, however, rendered exceedingly difficult by the additional cause of enormous public debts and crushing burdens of taxation. The power of recuperation is inherent in the body economic as it is in the body human, and it depends for its intensity

on the capacity for adjustment to surrounding conditions. In the present crisis, the conditions which facilitate recovery, have not been very favourable; and the weakness appears to be too deep-seated to yield to the remedies generally found effective on such occasions. There is evidently some thing peculiar about this crisis and depression which must be closely investigated. The idea of the momentary prosperity of the early post-war period in England, for instance, and a comparison between the position in that country after Waterloo and after the last war are brought out by Prof. Bowley[8] in the following words: "But, aided by the mis-management of the machinery of the supply of money, and impelled by the ignorant and exaggerated hopes of immediate reparations payments from Germany, people believed themselves to be rich and lived extravagantly and created a demand for luxury goods, whose supply diverted labour and capital from more important tasks. In consequence of all this, when the inevitable crisis arrived, disorganization was perhaps even worse than immediately after the armistice, and in March, 1921 before the disturbance of the coal strike of that year, more than two million persons in the United Kingdom were unemployed or working short time. The work of reconstruction had then to be taken in hand again in an atmosphere of disappointment and distrust, both national and international. The course of events after the battle of Waterloo was closely parallel to those a century later . . . . Then also there was immediate expectation of wealth and trade, a rise of prices and a subsequent collapse, but the parallelism

[8]*Some Economic Consequences of the Great War.*

does not continue, for after 1819 the great epoch of British industry and commerce followed, with foreign rivals far behind, while in 1921 England was only one of several industrial countries competing for a share in the trade of an impoverished world." This last sentence gives a clue to the mystery of the painfully slow recovery of England and of other countries also, from the slump into which they have all fallen except, of course the U.S.A., which, however, has had its own troubles.

Before the task of investigating and elucidating this practical side of the subject is taken up, it will be worth while to offer a brief review of the history of the theories in relation to the causes and nature of crises and to see how they fit into the economic conditions of the world as they have developed during the past few years. While it is true that the problem of the present world crisis is, in a sense, special and that most of the theoretical discussion on the subject is now usually devoted to the examination of the causes and the courses of the regular up and down movements of economic life, the so-called exogenous disturbances, e.g., occasioned by a war or a natural calamity being excluded from consideration, it should be pointed out that crises of the latter type are equally endogenous in so far as they also bring about and involve changes in the internal economic relations of the communal organization.[9] It should likewise be borne in mind that the discussion of theory cannot and does not leave out of account revolutionary changes in the very constitution of economic society which accom-

[9]Othmar Spann: "*Die Haupttheorien der Volkswirtschaftslehre.*"

pany or follow severe and widespread crises, e.g., disastrous effects of the introduction of mechanical and scientific processes in industries on large masses of people. The economic revolution which has taken place in India as a result of the extention of railways and of foreign trade and which has caused the decay of indigenous industries and increased the pressure of population on the soil, is an instance in point. The object and the scope of the theory of crises, as it has been developed during the last few decades, will be found instructively described in the following passage:—"We call crises those conclusions of periods of trade cycles, which are of a more or less catastrophic character and which are associated with the ruin or far-reaching damaging of numerous economic enterprises. They constitute a ruinous liquidation of the valuations of industrial development made by individual enterprises which are found not to accord with the market position and which cannot, therefore, be brought to fruition. It is the task of the theory of crises to elucidate the causes of these crises, to enquire whether they are the necessary forms of liquidating stages of development inherent in the capitalist organization of society or whether they are the outcome of circumstances which lie outside the purview of national and world economy; and lastly, to find out what changes they introduce into economic processes. As crises always constitute the termination of a period of unusual prosperity, it is an important problem for the theory of crises to investigate them also".[10] In view of the distinction which has, how-

[10] Emil Lederer: "Konjuncktur und Krisen" in *Grundriss der Sozialokonomik.*"

ever, been indicated above, between regular trade fluctuations and crises proper, it will be better to put the matter thus:—"The task of one who seeks to evolve a theory about crises is to show clearly the general causal relation which subsists between crises and the structure of economic life. On the other hand, the theory of trade fluctuations must explain the interdependence in economic life from which those wave-like movements proceed and also the general tendencies and the regular results which arise therefrom[11]."

The principal theories in relation to crises may be grouped under the following heads: (1) over-production, (2) under-consumption, (3) harmony of production and consumption (the theory of markets), (4) monetary quantity theory, (5) cyclical trade fluctuations. The earlier economists looked at economic society from the static point of view, and true to their conception of harmony, produced by freedom of individual action and by unrestricted competition, could not be expected to pay much attention to disturbances like crises which could be accounted for by the foolish and shortsighted adventures of businessmen or by natural causes like the failure of rain or by state interference with individual liberty. It was Robert Malthus among the Classical economists, who advanced the proposition that as wealth increases only with the accumulation of capital, which presupposes saving and abstention from the use of income for the purchase of commodities on the part of the rich, there arises an excessive accumulation of

[11]See Karl Diehl, above.

commodities which cannot be absorbed by the working classes, and also the necessity that the goods should be sold at prices that do not cover the cost of production. Malthus believed in the possibility of an all-round overproduction and not only in certain branches of industry, since he argued that the capitalisation of a large portion of the social income leads to excessive wealth-production which the general mass of the population has not the means of absorbing. This reasoning brings him very near the theory of under-consumption. The Classical economists, who were inclined to simplify problems and indulge in abstractions, did not consider the many-sidedness of economic life and offered very general explanations of complex problems like the phenomena of crises. The relation of over-production and crises could be discovered only by a close study of the peculiarities of the capitalistic form of society. Spiethoff, for instance, who has made a notable contribution to the theory of periodical trade fluctuations, denies that there can ever be general over-production, and least of all, the over-production of directly consumable goods. Real over-production takes place in the means of production, in durable investments. Aftalion sees the cause of the phenomenon in the "round-about method" of production, in the long interval which has to elapse between the inauguration of an enterprise and the time when the manufactured goods are ready for sale, an interval during which demand and prices might have radically altered. This idea had been developed by several thinkers in various forms, e.g., over-capitalisation of industries in relation to changed conditions regarding prices and demand.

The theory of under-consumption, which is implicit in the above explanation, became the *forte* of the socialist doctrine. Malthus had, as indicated above, already envisaged it, but it was Sismondi who placed the low wages of the working classes and their consequent inability to take consumable commodities off the market, in the forefront of his argument relating to the inequality in wealth distribution. Proudhon prepared the ground further by arguing that the labourer cannot afford to purchase the goods he manufactures, as the prices of these include also the profit of the enterpreneur. Rodbertus developed this thesis by contending that the origin of crises is to be sought in the defective organization of economic society which allows private property in the means of production. The owners of capital pay to the wage-earner merely the subsistence minimum, and the working classes have no purchasing power sufficient to enable them to purchase the goods they have produced. Pauperism and crises, therefore, hang together. The crisis theory of Karl Marx is only a slight modification of the above theories and is bound up with his own theory of the decreasing rate of profit, as also with the theories of constant and variable capital and surplus value. Decreasing ratio of profit to the total invested capital, the consequent extention of investment with a view to increase profits, the disproportionately low purchasing power of the working classes, in short, the disparity between production and consumption, inevitably leads to crises and must ultimately bring about the collapse of the capitalistic organization of society.

The proposition of Malthus that production outdistances consumption, was flatly denied by his brother classical economists as absurd. Human wants, they argued, are unlimited, and there can be no difficulty in finding a demand for goods. Ricardo further contended that goods are exchanged for goods and services and the disposal of these cannot be blocked by a lack of money. There will be occasional difficulties in the disposal of goods and a temporary glut may arise, but a longstanding or permanent disharmony between supply and demand is impossible. J. B. Say's "theory of the markets" gave a decisive expression to this view. Every act of production, he maintained, means an act of consumption, since it creates a demand for raw materials and labour. To produce a commodity and not to find a buyer for it, is an impossibility, as the agents of production are themselves buyers who absorb what they produce. Economic society is a kind of a market, in which a constant exchange of commodities and services goes on. The more is produced, the more will be taken off and absorbed. A general state of over-production is, consequently, impossible. Malthus pointed out the fallacies lurking in this simple argument, but the conception of harmony underlying the theory was accepted and further worked up by other thinkers, e.g., Carey and Bastiat. It was employed by the followers of Ricardo to support their free trade policy and was used to show how crises, provoked and encouraged by protective tariffs, would be remedied by a system of free exchange. That crises cannot be prevented by free trade, which only has a moderating

influence upon conditions of depression, has, however, been conceded by later economists.

The theory which sought to equalize production and consumption, altogether neglected the monetary factor which has powerfully affected the conditions of exchange in modern communities. Some economists discovered that the quantity of money in circulation is a regulator of prices and that inflation, by raising prices, leads to speculation and over-production and thus provokes crises. This theory runs in two channels, first, over-supply of gold[12] and second, which is not far different from it, the over-issue of paper money and bank credit. In both these ways, it is contended, prices are raised, investment and speculation are encouraged, there is over-production and over-capitalization and a crisis. Several American and English economists have laid special stress upon the credit policy of banks, monetary circulation and the unsteady level of prices as important factors which are responsible for economic disturbances and crises. The older economists considered crises as if they were things in themselves, without reference to the ever-changing conditions of modern economic life. Later theories devoted greater attention to the complex and dynamic character of modern capitalistic form of society and discovered in it a constant upward and downward movement of activity and stagnation, prosperity and depression, which appeared to be inherent in the very structure and methods of the industrial organization as it has developed. They felt

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12This view is put forward by Prof. W. Sombart.

convinced that the nature, the origin and the effects of crises can never be correctly understood unless one studies the course and the currents of economic life as a whole and in all their bearings. In their hands a crisis became a phenomenon that could not be usefully studied in isolation and assumed the shape of a problem of periodic movements in economic prospects and of an up and down movement of the general market situation. If the crisis is a cyclical movement, it may be asked, what force gives the first blow and starts the movement? There rae two different explanations offered here. According to the first, the initial impulse comes from outside and comes from time to time; and according to the other, the originating cause must be sought in the economic organisation itself, in its very constitution and normal working. The movement from normal conditions to a boom and from the boom to a depression, is either due to an external and extraordinary cause and works itself out in a wavelike fashion or it is a rhythmic process which goes on in a cyclic order under the regular influence of forces inherent in modern economic society itself. Prices and rates of interest play an important part in these theories. Easy monetary conditions and inflation stimulate production, high prices and high profits, which can not, however, be sustained beyond a certain spell; and the depression which succeeds, is characterised by deflation and low prices, which, in their turn, once more stimulate production. High spirits, intense activity, nervous breakdown, feeling of dullness, recuperation and buoyancy again—this is the economic cycle.

What guidance is the history of theories of crises given above, calculated to furnish in the discussion of the problem in hand, viz., the constitution of world economy and the prevailing world crisis? The older theories are unsatisfactory since they concentrate themselves on particular aspects of the phenomena and are attempts to discover simple explantions of very complicated things, though, in the circumstances, each one of them shows a glimpse of a part of the truth. For instance, though there can be no universal over-production in the sense that there will be a general glut of all commodities and services at a given time, a number of important industries may be simultaneously affected in that way. It is also difficult to agree to the proposition that the volume of production need not worry us since human wants are unlimited and with freedom of exchange, a corresponding off-take is inevitable. Armed with almost unlimited supplies of capital and methods of mass production, it is easy for modern industries to outdistance the community's power of consumption. The socialist theory of crises is equally too general and one-sided, though it gives prominence to a strikingly characteristic feature of capitalistic society, viz., inequality of wealth distribution and the yawning gulf which divides the few rich from the vast majority of the population. Crises are really due not to low wages but to the lock up of masses of capital in machinery and intermediate products which cannot directly go into consumption. As Diehl[13] remarks, "wages may be increased three to four times and yet they will not

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[13]*Theorestische Nationalokonomie*, Vol. II.

enable the masses to purchase the heaps of locomotives and iron and steel goods which may be found lying in stock in accumulated heaps." It should not be forgotten in this connection that on the eve of the out-burst of a crisis, wages, as a rule, stand on a high level. The socialistic theory, however, attributes crises to the unregulated system of capitalistic production; and the remedy corresponding to it, is less work and more wages for labour. The economic validity and practical wisdom of this method of harmonising production and consumption have, of course, been seriously doubted. Then again, while the theories about trade fluctuations throw a very interesting light upon some of the most notable movements in the present constitution and methods of economic life, and render valuable aid in understanding the causes and effects of those regular changes, they are not calculated to explain satisfactorily the disruptive and disastrous occurrences which crises of the extraordinary type represent; and they do not, therefore, make the older theories superflous, however defective they may be. The crisis of to-day, now stands at the stage of a wide-spread and deep-seated depression which has all the appearance of the state of stagnation that follows a big boom and betrays the exhaustion coming on the heels of a period of hectic economic activity. The present depression is, however, a calamity which has added itself to the consequences of changes of a constitutional character of far-reaching import which took place during the time of war and the period which immediately succeeded it.

It may appear as if the distinction here drawn between two kinds of economic disturbance, the first,

of the usual periodic or cyclic type and the second, of the extraordinary, disruptive kind, which shatters some of the important internal relations of world economy, is arbitrary and that it is a distinction without a difference. It is quite true that in both, a depression is preceded by a state of buoyancy and is succeeded by a condition of convalescence and that in either, the first impulse to the change may come from outside the body economic. Again, both are conditions of mal-adjustment and are succeeded by the re-establishment of an equilibrium. Nevertheless, the distinction between the two phenomena is real and fundamental, and is not only a difference of degree as regards intensity, duration and scope. In the trade fluctuations which are called crises, the changes are of a rhythmic character and are of the nature of regular irregularities, if one may characterise them in that way. In the crises proper, the irregularity is abnormal and is both the cause and the effect of some fundamental alterations in the mutual relations of the constituent parts of the body economic. In the trade fluctuations, the process of the restoration of normal conditions may be automatic and normal while in the real crises, the re-adjustments are difficult and protracted because they are revolutionary in character and consequences. It is essential that this peculiar nature of a crisis should be clearly grasped in order that the origin, the course and the effects of the phenomenon we are witnessing to-day may be properly understood. A theory of crises according to which trade fluctuations are occasioned by causes inherent in the modern capitalistic system, offers an inadequate explanation of the changes which have occurred in the inter-

nal relations of the economy of the world since the beginning of the war. There is no automatic action of economic forces here, because they have to work in conditions which are entirely different from what they were. The economic laws of competition, exchange and prices, for instance, are operative, as they must be, but they operate in altered abnormal conditions of world economy. The course of the crisis and its termination are, therefore, different in character from what they would be in ordinary trade fluctuations. The remedies are not, therefore, the usual patent specifics, and a special treatment is necessary.

The whole history of the incidents in the development of the economy of the world since the beginning of the Great War is eloquent in this respect. While the European Powers were in the deadly grip of the struggle, all their resources and energies were concentrated on its operations, and their normal economic life was diverted into new channels. As a consequence, the leading industrial nations of Europe, the biggest suppliers of capital, consumption goods and services to the rest of the world, ceased, for a few years, to perform their normal functions. Some countries outside Europe also directly participated in the hostilities. But they were called upon mostly to play a new role. They had not only to supply the needs of the belligerents as regards munitions, but were thrown on their own resources for satisfying their own daily wants which used normally to be supplied by the European countries. With her enormous natural resources and her power of industrial organization, the U.S.A. was able to assist the Allies with the supplies of food stuffs, raw materials

and manufactures which they badly required, and improved that opportunity to broaden the basis and extend the structure of her economic organization. The American supplies were paid for by the European nations in gold to the extent to which this was practicable, but mainly by returning American securities held by Europeans and by sending out promises to pay in the future. This signified a revolutionary change in the mutual relations of Europe and America. German reparations payments and inter-allied debts have introduced a further complication in the system of international exchange. As will be explained in a subsequent lecture, instead of being a debtor to Europe, the United States now became a creditor of Europe. The dollar was the only currency in the world which adhered to its old gold basis and, for a time, was the standard for the currencies of other countries. The large accumulation of gold in the States, is supposed to have had a tremendous effect upon the world prices and world economy in general, as will be shown later in the course of our discussion. What is material to the point at issue here is the fact of the revolutionary changes which have taken place in the internal relations of world economy and which alone explain the true nature of the present crisis. And it should be noted that it is not only the pre-war relation of Europe to the U.S.A. which has changed but the mutual political and economic relations of the continental states and the position of Europe in the markets of Asia have likewise undergone a material alteration. The new national tariff walls which have arisen in Europe have made the confusion worse. India experienced the full effects of the war

and of participation in the war. Some of these were of a temporary character, but others have proved to be permanent and of far-reaching import. For a brief space of time, India even became a creditor of Great Britain, and her war gift of Rs. 150 crores was used as a set off against the large credits she had accumulated in London. Owing to her industrial unpreparedness and to the peculiar economic policy of Government in India, she was not able to achieve any substantial progress, but all the same, the war left its legacy behind in this country also. The rapid expansion of the cotton textile industry in India, Japan and China has, for instance, adversely affected Lancashire and reduced its recuperative power. The political and the economic consequences of the war have been no less remarkable in other spheres and regions, and the Bolshevik experiment in Russia furnishes a striking illustration of the kind of disruptive changes in world economy that we have to consider. All these factors, taken together, constitute the complex source of the universal economic unsettlement that confronts us to-day. The facts cited above, are intended mainly to throw into relief the characteristic features of the present crisis as distinguished from the ordinary trade fluctuations, and our study, in subsequent lectures, of the position of world economy as it stood before the war and as it stands to-day, will elucidate this subject further.

What is, after all, the main implication of the commonly accepted theory of trade fluctuations and cycles? It is this, that when economic buoyancy is at its peak, there is a sudden crash, with the consequent effect of depression, that the dull condition of the market itself

supplies the stimulus of low prices to increased consumption and to renewed industrial activity, and that this self-acting machinery contains within itself both the cause and the cure of the trade fluctuations that occur regularly from time to time. Now, it is patent that in the prevailing world crisis, the self-acting economic machinery has not functioned and cannot function as it would do in normal conditions of trade fluctuations. The reason for this is that the interdependent parts of the mechanism of international exchange no longer fit into one another as closely as they did in the past, and, therefore, the movements inside world economy are obstructed. It would have been expected that the gradual fall in prices which occurred on the termination of the buoyancy period of 1920-21, should have evoked a steady increase in consumption and stimulated productive activities so that normal conditions could be restored in the course of a few years. But what happened as a matter of fact? The links that connected the old industrial centres with their old customary markets had snapped and new ties could not be easily forged. Take the instance of Lancashire and its Indian market again. There are mills in Lancashire which specialize in the manufacture of *dhotis,* and as there is little demand for them in this country and as the stuff cannot be sold to other people, the factories have had to be closed. The capital and labour set free there could find no ready employment elsewhere as other avenues were also blocked. Similar conditions have developed in other parts of the world and in other industries and trades to which it is not necessary to refer in this place, and the elasticity of international demand

and supply which is presumed in the theory of trade fluctuations has disappeared all over the world. A new equilibrium must, therefore, be established, and that process is bound to prove slow and troublesome in the extreme. World conditions are, however, not static; and under the influence of dynamic forces, re-adjustments will come in time as they do comparatively more quickly in the ordinary trade fluctuations. What those re-adjustments should be and how they should be effected, is the difficult problem, that needs solution.[14]

Since the present crisis is a phenomenon of world-wide magnitude and international complications, it is proposed, in the next lecture, to define the nature and the scope of world economy and to show how exactly it is related to national economy. When this is done, we shall be in a position to examine critically the measures that are proposed to set right the mal-adjustment which is inherent in the prevailing depression. A conclusive test to judge of the correctness of the proper theory of crises which fits in with the conditions of the world as they are found to-day, will then be provided when also all the material facts of the situation and their tendencies will come to be closely examined. The value of the theoretical discussion we have had of the problem will,

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[14]That expert opinion is beginning to take this view decisively, will be clear from the following:—"Are we in an exceptionally severe depression of a type similar to that experienced in prewar trade cycles, which were with some justification regarded as rhythmical movements in the world's economic progress and in which recovery succeeded depression in more or less orderly sequence? Or are we in the presence of an historic upheaval in economic conditions which will ultimately involve drastic changes in world trade and economic life?...... On a balanced view there is no reason to doubt that the pendulum is playing a very important part in the present crisis, and that the curtailment of economic activity is creating conditions which will at the proper time generate a new forward movement":—The *Economist*, 14th February, 1931.

likewise, be fully appreciated when theory and reality are confronted with each other. It may be confidently affirmed here that that theory cannot be correct which does not conform with the actual facts of life, national and international; and those policies and measures cannot but be failures which do not follow sound economic principles. Prof. Bernhard Harms, to whom I am indebted for the conception of the distinction between structural economic changes and superficial changes in market conditions, known as trade fluctuations, remarks with respect to the economic policies of European nations during the decade that followed the termination of the war, thus:—"The statement is perhaps justified that the principal cause of the failure of the economic policies of European nations during the past ten years is to be found in the fact that the essential difference between structural changes and market fluctuations has not been sufficiently appreciated. Measures intended to combat "crises" in economic life, can hold out a promise of success only when they not only attack the symptoms of the disease, which are common to both the species of illness but when they are specifically adjusted to the different natures of the complaint. A crisis which shows signs of deep-seated changes of a constitutional nature, requires remedies which are different from those that will be sufficient to meet the needs of a crisis which results from transitory fluctuations in the economic situation".[15] The above passage puts in a nutshell the true character and scope of the problem under discussion, and it makes a fitting conclusion to to-day's lecture.

[15]Dr. B. Harms in *Weltwirtschaftlicher Archiv*, for October, 1926.

III.

"WORLD ECONOMY"—ITS NATURE AND SCOPE.

Our discussion of the theories of crises, with special reference to the economic conditions as they are found in the world to-day, has prepared the ground for a closer study of world economy. In spite of the diversity of opinion and practice in respect of the meaning and employment of such terms as "political economy," "national economy," "social economy" and "economics," there appears to be a fairly general agreement as to the precise sense in which the word 'economy', which is common to them all, is used. Economy, in essence, signifies a compact body of activities which are directed to the production and acquisition of material goods and services for the satisfaction of human wants. There is, therefore, an individual and a social or national economy. Economic life, made up of such activities, is lived in certain defined political and social conditions and is, therefore, called 'social' or 'national' economy or *volkswirtschaft*. People occupying a definite territory and obeying a definite set of laws, as subject to the authority of a common government, constitute a political body known as a State; and the same community, the members of which are also bound together by relations created by their economic activities of various kinds, looked at solely from this point of view,

is a social economy[1]. Economics, as a social science, does not base its principles on the economic life of particular individuals or nations, and is concerned mainly with types of classes, groups and communities in relation to their economic transactions, though for the formulation and the elucidation of its theories, the study of separate national economies is essential. Nevertheless, the subjects of independent states, in so far as they are united to one another by relations of exchange and also similarly to subjects of_other states, are conceived as economic units, as national economies; and the mutual relations of such national communities are called international. Even the celebrated work of the Father of English political economy is styled the "Wealth of Nations," and in its opening sentence itself, the author says:—"The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labour or in what is purchased with that produce from other nations".

The economic relations of the subjects of independent States are not restricted to exchange with one another, and their activities are carried on simultaneously with the subjects of other States, on a large scale. These consist of the exchange of goods and services, export and import of capital and the immigration and emigration of labour. International exchange has now

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[1]Other such communities are the nation and the Church. For the important distinction between these and 'economy', see Philippovich: *Grundriss der Politischen Oekonomie.*

assumed such vast proportions and has reached such a high degree of complexity that it is of vital importance to the prosperity of all progressive peoples. The economic transactions of persons living in the territory of a State with people living outside, who are subjects of their own States, when taken as a whole, constitute world or *global economy*[2] or *weltwirtschaft*. As the dependence of nations on one another for the supply of commodities and services for the mutual satisfaction of wants, enormously increased, the term national economy was found to be too narrow to cover the world-wide transactions which were, therefore, specifically called world economy.[3] And on the analogy of the internal division of labour within a national economy, the principle on which the exchange between national economies takes place, was designated international division of labour. How and why business relations of a very intimate character are established between independent nations and what physical and cultural causes are responsible for the phenomenon, cannot but be an interesting subject for study, and it is rendered more interesting and even indispensable in view of the economic crisis through which the world has been passing and the remedies which are being proposed for its cure. The influence of economic transactions which take place between persons and business organizations in different parts of the world, is so subtle that it often escapes notice and defies clear

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[2]"It is the sum total of national economic activities which are dependent on one another and which have need of one another, which constitutes world economy (l' economie mondiale)."—Elemer Hantos: *l' economie mondiale et la societe des nations.*

[3]See Sartorius von Walterhausen: *Die Weltwirtschaft.*

appreciation and enunciation. And this is a powerful argument in favour of a specialized study of world economy.

Let us, therefore, now proceed to ascertain the nature, the scope and the significance of this "world economy" and define its place in the development of scientific economic thought. It should be noted in passing at this stage that while some eminent economists have built up a position of honour for world economy in the realm of economic ideas, others not less eminent, have refused to acknowledge the claims of the newcomer to such a status[4]. A large number of thinkers, however, are less exacting and more tolerant towards this new discipline[5]. This aspect of the subject may be considered later. The argument for world economy, put in plain and simple language, runs as follows:—Most economic phenomena relating to the people of a given country, particularly in modern times, have a two-fold aspect, the internal and the external; and it may be fairly claimed that just as, in spite of this fact, the economic activities of people living in the territory of a State are separately considered and are styled "national" economy or *volkswirtschaft,* so with equal right can one designate the aggregate of economic relations between individuals who are subjects of different States, which cross national boundaries, as world economy. It would be wrong to say that world economy is merely a collection of national economies or that it represents

[4]Karl Diehl: *Theoretische Nationalokonomie*, Vol. I; and *Grundriss der Sozialokonomik*, Vol. I.

[5]Philippovich: *Grundriss der Politischen Oekonomie*, Vol. I.

a step in advance in the course of evolution from national economy which itself follows the stages of domestic and town economy. World economy must be conceived as an organism just as a national economy is. This economy is as old as human society itself, and if it has assumed great importance to-day, it is due to the fact that international, like internal, national, relations have enormously expanded and grown in intensity during the last hundred years. The content of world economic activities is essentially the same as that of the national, and still the former have certain peculiarities of their own, which place them in a special category. To give an illustration: An Indian dealer sells cotton to a Bombay mill or to a mill in Japan. Both are acts of sale, and in both, there is the problem of transport and payment of price. Similar is the case of an Indian manufacturer who purchases machinery in this country or in Germany. Though the two types of exchange are essentially similar, what complications are introduced by the necessity which the international transactions involve, of making and receiving payments in foreign and in national currency and of making difficult calculations as to the true cost and net realizations[6]! How many commissions and committees have enquired into the question of the basis on which international payments should be made in transactions between India and the outside world? And yet the echoes of the "ratio" controversy are being heard even to-day, and it is doubted whether despite protestations to the contrary, the last word has been said on that subject. Economic

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[6]Gregor Bienstock: *Einfuhrung in die Weltwirtschaft.*

relations with the outside world produce enduring as well as transitory effects upon the structure of national economy and on the functions of the national State. Decadence and development of industries, national tariffs, national policies of prohibition and protection, regulation of immigration, factory acts, changes in the national modes of consumption, etc., are some illustrations of this result.

The exact position of world economy will be made more clear if its precise relation towards the isolated, single or individual economy on the one hand and national or social economy, on the other, is pointed out. The first of these latter two, consists of an individual or a group of individuals such as the family, an industrial company or a commercial partnership, the ultimate object of whose activities is the satisfaction of wants. This economic unit is defined as "an organization carried on by an economic subject with the view to make, maintain and use goods". The single economic units stand in reciprocal relation to other similar units over the entire globe. Divided as they are by long distances from one another, they carry on their business on the economic principle of trying to extract the greatest advantage from the acts of exchange. Distance makes no difference to them. Besides the difficulties which physical distance, of course, interposes in the path of this intercourse, there come into play, however, the effects of the measures of States whose subjects the single economic units are, and of other States, in connection with the guidance, regulation and control of business transactions with the external world. The

interference of national governments may be of varying degrees, but it is universally exercised, at least in connection with currency and credit, commercial and factory laws, transport, canals and navigation and taxation. The State usually goes further. It "protects agriculture, renders difficult the competition of foreign industrial nations, promotes trade, tries to prevent the decay of cottage industries, forbids unfair competition, provides safeguards against the exploitation of labour, restricts or disallows the labour of women and children, regulates working hours in factories, &c.[7]. The complex of the relations of individual economic units with one another and with the authority of the State, constitutes the second economic group known as 'national' economy. This community is lacking in the single controlling will and purpose which characterises the first named unit. The people in Bolshevik Russia are to-day probably the only exception, because there, the State, the economic community and the individual units are all rolled into one, and all economic policies and activities are directed by one governing authority. Next, the idea of world economy is formulated on the analogy of national economy, and it is described as "a community of the people of the world whose mutual economic transactions are promoted by highly developed means of communication and transport and by international agreements effected by States". It is a looser association than the national economic units. There is here no

[7]For an exhaustive treatment of the subject, read B. Harms: *Volkswirtschaft und Weltwirtschaft*, a distinguished work to which we are deeply indebted for a systematic and full exposition of the subject of world economy.

common territory, no common laws and no common government, the place of the latter being taken by voluntary treatise and understandings entered into by States on behalf of their peoples. Nevertheless, it is, for all practical purposes, a community of persons carrying on exchange with one another under definite conditions as regards rules, practices, conventions, contracts, credit and means of communication and transport, all of which facilitate business transactions which have now grown into an enormous volume. The century-old economic relations which have subsisted between nations, have in course of time, almost hardened into an international system; and in view of the reactions which changes in the social and political conditions in one part of the globe are apt to and do produce upon the economic life in other parts, and looking to the solidarity of international interests which has thus been created, it hardly needs further argument to convince one of the importance of considering economic problems from the comprehensive world point of view as well as from the view point of individual peoples. World economy must, therefore, be recognized as a subject worthy of independent and systematic treatment. The early classical economists recognized and emphasised the unity of the economic interests of humanity, as it was manifested in the advantages which freedom of exchange conferred upon the different nations, and they were never weary of preaching the blessings of free trade. But they did not go beyond this. It is due to one school of German economists in particular that the subject has recently received the place of honour in system-

atic economic investigations and studies which it deserves. Some thinkers in Germany itself, as has been pointed out above, are indeed not prepared to concede this claim and hold that there is nothing new in the exposition that is given of world economy and that what is new, viz., the attempt to build a new science on its foundations, is untenable. Before considering their objections, it will be instructive to state the case of the supporters of world economy with greater scientific precision.

All that can be reasonably claimed for the doctrine of world economy is *prima facie* that it is the application to facts of inter-regional and international content of the theories of economic science which are germane to the subject matter. But it will be better to follow Dr. Bernard Harms' argument which may be put thus:—Pure theory is independent of all considerations of space and time. The Classical economists attempted to deduce practical policies from their pure theories. If they had not done this, their theoretical universal economics would not have met with the bitter opposition it has encountered. But their theory had an aim and a purpose, and it was "the wealth of nations". But was their theory compatible with the prosperity of all nations? List argued that it was not. He put forward no new theory of his own, however. The problem has now been approached in another way. By the side of pure theory has been placed what is known as applied theory which is based on experience of economic life as developed in different countries and revealing

certain common features as well as variations. When the special conditions and the historical peculiarities of different communities are once recognized, it follows that each of them must have a system of applied theories, that is to say, each State must have its own system of practical economics. This solution will be found suitable by those who refuse to allow economic science to put forward any aims or ideals of its own as well as those who regard the attainment of the well-being of the nation as the sole purpose of national economics. Both for theory and policy, national economy and world economy provide essentially the same kind of material. Exchange provides the points of contact. Only, in world economy, the field is wider, international agreements take the place of national laws, sea transport has to be considered in the place of railway communications and so forth. We have thus side by side two separate economic units, the national, living under State regulation and the international or world community, whose internal relations are protected by State agreements. The background of pure theory is common to the two, while each has its own practical policy. It should be added that, moreover, there are many problems and theories which can be fruitfully tackled only from the larger and the international and world point of view. The world economic community is, therefore, as legitimate a concept as the national community which also may be regarded as an abstraction. This presentation of the case for world economy and its theoretical background, must be pronounced to be fair and reasonable, and it is not possible to agree with

those who would make out of a knowledge of world conditions a separate science and speak of independent theories in connection therewith[8]. Nor can they be right who ignore or reject the idea of an independent study of the phenomena of world economy.

One of the most striking features of the economic community is the interdependence of its members on one another for the supply of goods, division of labour, specialization and mutual exchange. The principle underlying the system of interdependence and mutual supply is called, though not quite accurately, "division of labour", and is used to explain the phenomena of world economy, particularly, international trade. Before the birth of modern capitalism, western countries depended on the East for the supply of articles of luxury. The eastern countries now supply to the west raw materials and take in exchange manufactured goods, which often represent capital borrowed for economic development, e.g., rails, locomotives, machinery, &c. Natural differences with regard to climate and soil were the foremost cause of the division of labour between the different zones of the earth, and agricultural countries came to be distinguished from industrial countries on that score. Though natural differences continue to play an important role in international division of labour, improved means of transport, cheap and abundant capital, skilled labour and improved mechanical

[8]Sartorius von Walterhausen: *Die Weltwirtschaft;* Hermann Levy: *"Die Grundlagen der Weltwirtschaft";* and Elemer Hantos: *Die Weltwirtschafts Conferenz.*

appliances have steadily tended to modify the conditions of the division of labour. Nevertheless, it is true to say that during the second half of the nineteeth century, European manufactures were exchanged in steadily increasing quantities with the raw materials and food stuffs of the East, such as cotton, wool, oil seeds, wheat, tea, sugar and hides and skins. The profits made by western nations out of the export of their manufactures abroad, were invested in Eastern countries and also in the further development of their own national industries, with the result that specialization was further intensified. While trading with the East in manufactures, Western nations which reached almost the same high level of industrial development, exchanged with one another, different varieties and qualities of nearly the same classes of goods but chiefly in specialized articles. Thus Germany excelled in the chemical and the toys industries, England in the manufacture of cotton fabrics and machinery and France in that of articles of luxury. Differences in natural conditions which become less effective with improvements in the means of transport, in industrial processes and in economic organization, tend to regain their importance as these latter advantages come to be equally shared. Division of labour is both horizontal and vertical, and as differences due to the efficiency of the human factor recede to the background, natural advantages take their place.

So rapid and so numerous have been the improvements and changes in the methods and organization

of the production and exchange of wealth in recent years, that world economy presents an extremely complex and confusing picture. (1) The old distinction in relation to their natural possibilities, emphasised, among others, by List, between countries of the temperate and the tropical zones has lost much of its importance. Nor is the principle of distinction based upon racial and colour difference, any longer wholly tenable. (2) Countries have indeed to be distinguished as predominantly agricultural and predominantly manufacturing. Many of the former depend for their wellbeing, nay, for their very existence, on finding an adequate market for a particular produce which is pivotal for their economy. These latter are coffee and rubber in Brazil, saltpeter and copper in Chile, wheat and frozen meat in Argentine, rice and teak in Burma and Siam, ores, wheat, wool and frozen meat in Australia, cotton in Egypt, and so forth. Cotton fabrics and coal are instances of pivotal articles for manufacturing countries like Great Britain which also have their own natural advantages. Agricultural countries are, however, making successful efforts to reduce their dependence upon particular products and to correct the one-sidedness of their economy. Argentine, Brazil, Canada, Australia, Japan and similar other countries have built up manufacturing industries, and it cannot now be held that nature has assigned certain industries and occupations to different regions, in which no alteration is possible. That old superstition has been almost exploded by the industrial achievements of the U.S.A. which, at one time, was described

by Europeans as an agricultural nation, and Japan also has given it a severe blow. It is significant that agricultural countries are divided into old and young and so also manufacturing countries. Turkey, India and China are examples of old, and Argentine, Uraguay and Brazil of young agricultural countries. Similarly, old manufacturing countries are represented by England, France, Belgium, Switzerland and Germany while the youthful generation of that class is represented by the U.S.A., with Canada and Australia following at a distance. (4) The industrial development of the world,—the growth of its manufactures, its improved means of transport, its expanding shipping and even its large-scale agriculture and plantations—has been almost entirely due to the supply of European capital and enterprise, Great Britain and France taking the lead and other European nations following them. Mainly through political power and to a lesser extent, otherwise, the leading European nations dominated the sources of the supply of raw materials and markets for the disposal of finished products in large areas of Asia, Africa and America and controlled spheres of economic as well as of political influence. The larger industries in India, railways, engineering, jute manufacture, tea, coffee and rubber plantations and coal mining are instances familiar in this country. The old "colonial" policy was practised by western imperialistic nations on the principle of mere bluff if it could succeed or give and take among themselves. Unedifying rivalries and struggles have been carried on by European powers for this purpose. Economic

Imperialism has gone hand in hand with political Imperialism. The following view expressed by a German writer[9] throws illuminating light on Britain's policy with regard to the export of capital to India:—"English capital has used its predominant political position in India to secure the railway investments fully and entirely in the shape of railway materials. During the years 1901-11, Indian railway securities worth £24.3 million were placed in the London market, and during the same period, railway material worth nearly the same amount was exported to India from England. The monopolistic position of British capital is quite clear here, but it is accounted for by its political importance".[10] In cases where there is no such complete monopoly, the benefits of export are shared with other manufacturing countries, e.g., in the investments in Argentine. (5) The number of persons living upon the earnings of capital invested abroad has steadily grown in European countries, and they form an interesting class of what may be called citizens of the world, allowing their capital to flow to any part of the world where it will be safe and may pay best. They and the industrial prospectors are probably a good example of what some writers call "international men", not to be confused, it is hoped, with the economic men of the Classical economists. The distinction usually drawn between creditor and debtor nations is, from what has been stated above,

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[9]Gregor Bienstock: *Einfuhrung in die Weltwirtschaft.*

[10]The stores purchase policy of Government in India, which has been subjected to severe criticism during the past few years, throws instructive light upon this system.

obvious. It should be only noted that before the war, the U.S.A. was among the latter class of nations. (6) Specialization is likewise found in trading and shipping activities of nations, though the two may go hand in hand or may be separately carried on by different countries as their special or predominant occupation. Some nations have attained the ideal stage of economic development on which List laid great emphasis and for which he took England as the model, and have combined in themselves agricultural, manufacturing and trading activities in due proportion. France, Germany and the U.S.A. are later additions to this category. A few nations which have no adequate opportunities for agricultural and manufacturing development, take to shipping while other countries like India, have practically no share in the carrying trade of the world. (7) Another point of international contact is furnished by the movements of population between countries. The economic development of north America has been entirely the work of European colonists and negro slave labour. South America has been similarly colonised from Europe, and so also those parts of Asia and Africa where climatic conditions did not render it impossible. Modern colonization of America, Africa and Asia for purposes of economic exploitation and commerce, is the product of European capital and enterprise. As the native inhabitants of the colonies were neither inclined nor fitted to help in the exploitation of the local natural resources, labour has had to be attracted from abroad, and India has supplied such labour to many Asiatic and African colonies of European Powers. Emig-

ration from European countries, particularly of the south and the east, was welcomed in the U.S.A. to exploit the resources of the new world, and these movements of the population were a source of great relief to the congested and over-populated nations of the world. The wealth of the western world has thus been increased by the co-operation of capital and labour belonging to the different parts of the globe. Immigration has, however, never been free except in the U.S.A. for white people, and Asiatic labour has been admitted or refused admission as racial and national considerations dictated. (8) In this and other matters, it will be seen, pure economic forces have not been allowed unrestricted play. Avowedly or unavowedly, national governments as also individuals and groups are seen to regulate the currents of economic intercourse in the interests of their own people. Tariffs have been employed as a suitable means for restricting external competition with national industries. It is in this important particular that world economy radically differs from national economy. While in the latter, there is a recognized authority which performs a unifying, regulating and co-ordinating function, in the former, things are left in a chaotic state except where they are arranged by mutual understanding. If not in the theoretical, at least in the practical part of national economy, proper account can be taken of national and racial sentiment to reconcile abstract thought with reality. In the corresponding part of world economics, there is no feeling of universal solidarity or sentiment of common humanity strong enough to influence economic policies.

Universal economy has not reached that stage of unity and solidarity which the national economy has done. As an offshoot of modern capitalism, organizations like cartels and trusts have come into being, and they are acting like international co-ordinating bodies. But they often work on the principle of economic imperialism and close monopoly. Experience of their working being very brief, no useful judgment can be passed on them, though their effectiveness in attaining the high aim they are presumed to serve, has been seriously doubted. International agreements are an important device which has been successfully tried in several particulars of world interest, and the hope is widely entertained that use of this procedure will be more earnestly and more extensively made for the peace and well-being of humanity. (10) Behind all the particularism, however, there remains the undoubted fact of the consciousness of the interdependence of the various parts of the economic world community; and it cannot be denied that the solidarity of the interests of its members is being more and more realized even by the common mass of people when they find by personal experience that their interests as cultivators, manufacturers, factory workers and consumers are intimately bound up with those of people of the other countries of the world. The consciousness of the privileges and responsibilities of the membership of a common humanity is slowly dawning on the mass mind. How, in the absence of a common authority, e.g., a world State, this consciousness should be given a concrete shape of policies and actions calculated to benefit the whole world and prevent harm to any of its

parts, by organizations like the League of Nations, is one of the most difficult problems that has to be solved to-day, since the racial, national and colour consciousness appears to be ineradicably deep-rooted and strong, while the idea of the community and solidarity of world interests is only vague and amorphous. World economy with its unifying forces, has here to take account of the centrifugal tendencies of national economy and to reconcile itself to them.

There are two conflicting forces at work in the world to-day. On the one hand, there is the unconscious, if not the conscious, movement of forging links of international interest engendered by growing mutual contact brought about by increasing intercourse between nations, and on the other, national and local resistance to this force inspired by the motive of self-preservation and self-improvement, which appear to be threatened by super-national activities of individuals and organized bodies bent on material gain. It is claimed that the enormous increase which has taken place in international exchange has imparted to these transactions the qualities of steadiness and solidity. World markets have come into being with their well-recognized usages and regulations on the exchanges for the disposal of cotton, grain, wool, coal, sugar, coffee and other commodities which have a world-wide demand. Regular information with respect to these commodities is being supplied to the public all over the globe. The carrying trade, the agency business and insurance have been well organized, and banking facilities of all kinds have been made easily

available in the transactions of world trade. Commodities have steadily become cheap, they can be purchased and sold anywhere and at any time and in advance of the actual transactions, and the whole world is now bound in a commercial net. It is, however, recognized that although the world can now, as it were, spread its risks wide and pool its resources together to satisfy the demands of all countries, the machinery of production and distribution has become so complex and delicate that a change in one part of the mechanism can dislocate the other parts and throw the whole thing out of gear to the disadvantage of weak and unprotected nations. Apart from the scope that is provided for speculation, cornering and greed, and the uncertainty which arises therefrom, trades and industries are subjected to the danger of unscrupulous competition and monopolistic organisations. In these circumstances, can it be asserted that the industries and the trade of the world are to-day carried on strictly in conformity with the economic principle of the division of labour? Nations do not, as a rule, restrict their productive activities to those industries in which they have a special advantage. Articles of national importance, as they are called, are manufactured at home whatever their comparative cost may be, on the principle that defence is more important than opulence. It is indeed not always easy to draw the line distinguishing which commodities are really so and which are not. Is an Indian mercantile marine, for example, a national necessity for this country? This question has been answered both in the affirmative and the negative, according to

one's attitude on the desirability and the urgency of encouraging indigenous shipping enterprise in this country and also making it independent of external monopoly and control. It is found that industrially developed nations protect their agriculture and import food stuffs only to supplement home production. Here we have fiscal protection for national agriculture as well as for national manufactures. Similarly, predominantly agricultural nations encourage home manufactures by means of tariffs; and some of their manufactured imports are intended to be only supplementary. To-day almost all the industrially developed countries manufacture more or less on a larger scale, nearly all the articles of daily use such as steel, soaps, cloth, motor cars, fountain pens, glassware, hardware, cement, &c., and still such articles are regularly exchanged between them. Prof. Harms says:—"For instance, German type writers are not inferior to the American, nor are German fabrics to the British fabrics, German lamps to the Bohemian, German matches to the Swedish, German rubber shoes to the Russian, German carpets to the Persian. And yet these articles are exchanged in enormous quantities"[11]. Fashion or taste may be responsible to some extent for this interesting phenomenon, and the economist must certainly take the psychological factor into account. But that the exchange is not carried on strictly on the principle of the division of labour, in the technical economic sense of the term, is clear. Value being a matter of subjective preference, even imaginary qualities may be

[11] *Volkswirtschaft und Weltwirtschaft.*

the basis of the exchanges and economists cannot quarrel over it. Whatever it is from the individual point of view, however, it is, according to Prof. Harms, not a division of labour from the point of view of national economy. Especially is this the case when nations raise the prices of imported commodities by means of protective duties, and in no way can they be said to purchase in a country which has the greatest advantage in manufacturing the commodities concerned. When people in England insist that a certain proportion of the films exhibited in their cinema houses must be of British manufacture, or propose that British bread must contain a certain quota of flour made of Empire wheat, there is no division of labour in the proper sense of the term. That principle, in so far as it applies to most of our international trade, must be interpreted to mean merely an exchange of commodities, which is not regulated by any intelligible motive of economic dealing. The hope, therefore, that nations would be guided by reason and would not waste their energies and their capital in producing things which they can buy more cheaply elsewhere, has not been fulfilled.

A comprehensive view of the panorama of world economy taken from the heights of the conception of a common humanity, united by the co-operative effort to extract the utmost benefit from natural surroundings, with the aid of labour and organization, is calculated to demonstrate how a peculiar unity resides in the diversity of the elements that make up the scene. A close observation of the individual parts

that together form the landscape is, however, essential for a correct appreciation of the shifting relations which subsist between them and which contribute to the unity of the whole. As the conception of world economy, considered as a unit, is a necessary corrective to the narrow, ignorant and misleading ideas regarding the nature and the effects of the international division of labour and co-operation for the safe and healthy economic development of all nations, so is a proper appreciation of the motives and the actions of individual nations and groups indispensable for bringing into close touch with the realities of life, the humanitarian philosophy of world unity and the cosmopolitical idealism of individualistic materialism. In this world of imperfect mortals, it is to the State that the duty has been assigned to regulate and control individual liberty is so far as it is held injuriously to affect the well-being of others and of the community as whole; and the limits of this function are ever growing wider. The exercise of that function by the national State influences the freedom of action of its citizens in relation to the outside world in a variety of ways, and the internal intercourse and the economic division of labour within the world economy thus come to be powerfully influenced. A brief account has been given above of the various forces which, working together and against one another, have produced what may be called a state of a dynamic equilibrium of world economic relations and moulded the unity of world economy into a certain shape, in the course of the past generation or two. And to revert to our main illustration, we have now to ascer-

tain how the structural changes which came about during the time of the war and the post-war period, in the organism of world economy, have materially modified the conditions of that equilibrium and have consequently contributed to the prevailing crisis.

Nations have not yet got over their sad experiences of war time, and the tendency is visible in them to make themselves self-sufficient in the matter of the necessaries of life and industry as far as practicable. To that extent, it may be said that this is a reversion to the ideas and the practices of mercantilism. The State is called upon not only to protect the weak and unorganized people, the industrial workers, handicraftsmen, small peasants and tenants and the consumers but is likewise expected generally to assist indigenous trades and industries in their competition with foreign rivals with the view to promote national well-being. Increased national taxation has become necessary everywhere to enable the State to meet increased public expenditure which is the direct and the indirect legacy of the war; and national governments have been driven to raise the required funds, to a considerable extent, by enhancing customs duties. The high tariffs have the obvious effect of impeding import trade and the smooth running of the machinery of international exchange. India's customs tariff is an illuminating example, where the import duties are not deliberately protective, of the financial necessities of the national exchequer driving the national government even against its instincts, to put obstacles in the path of international exchange. In the post-war period the scope of the so-called key industries has

greatly extended, on the plea that in the event of a future war, nations may not find themselves helplessly at the mercy of other countries for the supply of certain absolutely essential articles. In England, not only the dye-stuff industry but industries connected with the manufacture of optical and scientific instruments, drugs and chemicals have been treated as key industries and have received the direct and indirect patronage and assistance of the State. This practice has been widely followed in other countries, great and small, in Europe and outside. It should be remembered that the manufacture of steel and leather has been treated in this manner in India. The idea that key industries need protection for national security has been extended even to agriculture. For, is not there the danger of a nation being starved into submission by its enemies in war? Self-sufficiency in the supply of the articles of food, to a smaller or greater extent, has been accepted as a principle of national policy in several countries of Europe, and what the application of that principle in practice means to the old, pre-war equilibrium of exchange relations between the countries of the world, it is unnecessary to explain. The effects of the political policy of the Allies which found expression in the motto that the war was being fought for the security of small nationalities and that as a result of their ultimate victory, the independence of those nations must be guaranteed, have been very far-reaching and extremely disturbing. The addition of fourteen new independent States to the map of Europe has altogether destroyed the pre-war economic equilibrium of the continent, to the utter confusion of

the trade and industries of the world. The territorial losses imposed on Germany and Turkey and the creation of mandated territories to be looked after by the leading Allied nations, have also contributed to the maladjustment of trade and industrial connections as they had been developed during a few years preceding the war. These arrangements may be politically right, but their economic results are, for the time being, undeniably unsettling in the extreme. The same remark has to be made with respect to the German reparations payments, a subject to which we shall revert later. Among the other post-war changes which have contributed their shares to the economic confusion of the world crisis, may be mentioned the immigration policy of the U.S.A. which has placed severe limits upon the admission of European workers into the States and has thereby stopped an outlet for the surplus labour of over-populated countries of the continent. The British Dominions, on the other hand, have pursued the policy of co-operating with Great Britain in finding employment for willing emigrants from the mother country. Measures are likewise being devised for the economic consolidation of the Empire. Monopolistic organizations like national and international cartels, which have made successful attempts to control the production, supply and prices of raw materials and semi-manufactured commodities, very often with the permission and the assistance of national governments, may also be referred to as an important factor in the situation only in passing here, as these tendencies and facts will come up for discussion again in another connection hereafter. Lastly,

the subject of the changed and changing international division of labour may be briefly mentioned. While the old industrially advanced nations are striving to overcome the disadvantages of distance separating their industries from raw materials and markets, by rationalization, i.e., by increasing the efficiency of production and sale, with the aid of improved machinery and more economic methods of organization, thus contributing to the increase of unemployment, industrially backward countries are attempting to take full advantage of the proximity of raw materials and markets and to compete successfully with their rivals as far as practicable, by adopting the latters' own methods. This movement signifies the constantly shifting nature of the division of labour between the west and the east and between old and new countries and the influence upon it of the policy of protection which is resorted to for assisting the growth of infant and weak industries in countries which are struggling to go ahead in the race of economic development. It is needless to add that all the changes which have been briefly enumerated above, are of a structural character, introducing radical alterations in the system of international intercourse, diverting the old channels of trade, reducing exports, interfering with imports, creating serious unemployment, and thus throwing the whole machinery of national industries into confusion and calling for a re-adjustment of international economic relations. This development of the world's economic situation, it may be incidentally mentioned, gives convincing ground for holding that the prevailing crisis is of an extraordinary type and not of

the class of usual trade fluctuations, and confirms the view advanced with regard to it in our exposition of the theories of crises.

Only one important question, which has been referred to above more than once, now remains to be discussed, and it relates to the scientific validity and the practical utility of the efforts made by some thinkers to put forward world economy as a new discipline within the domain of economics. We must freely confess that the objections raised, especially those directed against the dogmatic exposition of the doctrine of world economy as an addition and an acquisition to existing economic thought, are legitimate and weighty. Prof. Karl Diehl[12] of Freiburg has subjected the new system of thought and investigation to a free and frank criticism, and it will be useful to give a brief summary of the arguments he has urged against the work of Dr. Harms, the chief sponsor of world economics. (1) Economic science, as we have it, already takes account of the facts and movements which are sought to be made the special subject matter of a new discipline. Problems of international economic relations, for instance, have been discussed by the different schools of economic thought. (2) Dr. Harms has unnecessarily narrowed the basis of world economy by confining it to international economic relations which are regulated by voluntary agreements entered into with one another by States. There are important international transactions which are not so regulated, and these influences play a large part in

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12 *Theorelischeo Nationaloconomie.*

world economy. For example, the policy of the Indian government in relation to the closing of mints to the coinage of the rupee, adopted in 1893, had a tremendous effect upon the world economy and yet it was not based upon an international agreement. (3) Dr. Harms' conception of individual economy is misleading and his definition of national economy or *volkswirtschaft*, is too narrow. Individual and world economy are both implicit in "social economy", correctly understood, and do not need separate treatment. There is no analogy between national or social economy and an independent world economy as it has been defined, in as much as the final controlling authorities in both are the same, viz., the States. (4) The increasing volume and intensity of world intercourse do not justify the conception of the birth of a new economic community like world economy and the formulation of new economic doctrines in connection therewith. Quantitative changes have not been accompanied by qualitative changes, and there are no new problems which have not been thought of before. (5) World economy cannot be regarded as a logical step in advance upon other forms of economic association [13] as post-war developments in national conditions and policies clearly demonstrate. (6) The creation of a new branch of knowledge in the shape of world economy and the trespassing on the domains of other sciences and disciplines, which the process has occasioned, e.g., geography, anthropology, ethnology, technology, etc., only threaten the integrity of economic science and encourage dilettantism.

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[13]Dr. Harms does not share this view.

The root and branch opposition reflected in the above hostile criticism of an independent scientific discipline of world economy, has been obviously provoked by the exaggerated claims put forward on behalf of certain new conceptions about prevailing world tendencies. The criticism is sound and is based on a clear insight into the subject matter, purpose and scope of economic science. The question at issue is whether the distinction drawn between two different economic communities, viz., one, a body of persons confined to the limits of a State and the other, a world community, not bound together by any national ties, is valid and whether the two groups can be made the subjects of separate scientific systems. Now, social man whose economic activities are investigated by our science, is neither a Robinson Crusoe nor a citizen of the world, and it appears to be neither reasonable nor desirable to divide him into two distinct personalities and to make him the denizen of two independent worlds. The study of world economy can not likewise yield any new theories as some of its zealous devotees believe, and an independent science or an independent branch of economics cannot be constructed on its foundations[14]. But all this criticism does in no way minimize the importance of investigating economic phenomena of international interest and of universal import. Not only is such a special study useful but it has now become indispensable in view of the disconcerting complexity of modern economic life. After the description of world economy and of the structural changes it has recently undergone, which we have given

[14] See Heinrich Pesch: *Lehrbuch der Nationalokonomie*.

above, it is needless to elaborate this point further. It will suffice to refer here, for the purpose of illustration, to the problem of the present depression and its relation to the distribution of gold among the countries of the world, of the abnormal fall in the price of silver and its far-reaching consequences and of the condition of the sugar industry, problems none of which can be properly understood or solved unless they are approached from the world point of view by the nations and interests concerned, in complete co-operation with one another. Even countries which are not directly affected with regard to these questions, are indirectly interested in them and have to support concerted action proposed for their solution. This is the chief reason why we have associated the investigation of the causes and the nature of the present economic crisis with the study of world economy in the course of these lectures; and we entirely agree with Dr. Harms in the view he has taken of this particular subject as also in the world-attitude he has adopted in the discussion of questions of international importance. Thinkers who are not prepared to go with him all the way, find themselves in agreement with him, nevertheless, on this point. For instance, while approving of Dr. Harms' effort at a synthesis of world economic phenomena on the ground that these constitute an independent complex, Dr. Wolfgang Heller[15] holds that it is going too far to treat the theory of world economy as an independent science in as much as all the phenomena of economic life must be traced to the same common roots and must, therefore, belong to one and the same

[15] *Theoretische Volkwirtschaftslehre.*

science. Philippovich[16] has put the matter very neatly, and his views may be briefly summarised as follows:—"We cannot yet speak of world economy as an independent economic organism because its members are bound to one another only by the relations of economic intercourse and not also by the ties of a common constitution. The inter-dependence of economic communities is fast increasing and international trade in all sorts of goods has brought them closer together. This growing international economic association exercises a powerful influence on the economic organisation and methods of individual nations. Prices, rates of interest, consumption are all affected in this way everywhere. As Dr. Harms justly points out, economic science must study these facts and ascertain their working in relation to different economic communities. Economic theory, however, needs no modification on this account as it already covers the phenomena of world economy and is not associated with any particular national economy or economies. From this it is not to be understood that the facts of world economic relations and the influence of international intercourse on the conditions in different countries are not to be scientifically studied. On the contrary, such investigations and studies are expected to assist the further development of economic theory." It will be difficult to improve upon the above statement of Philippovich concerning the exact position of world economy as an integral part of the subject matter of economic science, and it will be seen that it is in perfect harmony with the views we have already expressed in this connection.

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[16] *Grundriss der Politischen Oekonomie*, Vol. I.

IV.

THE WORLD ECONOMIC CONFERENCE.

That events and developments occurring in one part of the world react powerfully upon conditions, particularly economic, in other parts, and that problems raised by such changes cannot be solved by the action of individual nations and require common counsel and concerted measures, has been acknowledged for a long time. Not to speak of questions of purely political import, which have been internationally handled, problems like those connected with the use and production of silver, sugar and opium, have been discussed at world conferences. Continued and intensive co-operation of nations for such purposes, has been found to be indispensable to meet the peculiar conditions created by the serious economic mal-adjustment resulting from the war, and the League of Nations has been entrusted with the task of organizing this work. Economic science has not failed to keep step with this international movement. As Prof Elemer Hantos[1] points out, "if the political economy formulated by the English Classical school may be considered as the science of the anatomy of English commercial life of the close of the eighteenth and the beginning of the nineteenth century, the social economy in the form which it acquired later, during the first decade of the present century, may be regarded as the biology not of national microcosms but of the microcosm of world

[1] Elemer Hantos :—*L'Economie Mondiale et la Societe des Nations.*

economy". To the promoters and supporters of a special study of world economy thus developed, must be given the credit of having thrown a glare of academic as well as practical light on the economic interdependence of nations and its far-reaching importance to the healthy progress of civilization; and the world crisis has now furnished abundant and convincing evidence of the universality and the cohesion of world economy as all the nations of the earth are sharers in the common misfortune. The efforts of the League of Nations were, from the very first, directed to the maintenance of international peace and harmony and to the removal of the obstacles which impeded the unfettered intercourse among the nations of the world. The proposal to convene an international economic conference was mooted at the sixth Assembly of the League, and it was finally accepted in 1925. Preparatory committees of experts were appointed to collect up-to-date facts and statistics relating to the problems the Conference was expected to deal with. The Conference actually met in 1927 and discussed the situation in its three-fold aspect, the commercial, the industrial and the agricultural. The main object of the conference was declared in the resolution of the League Assembly of 24th September, 1925, when it declared itself, "firmly resolved to seek all possible means of establishing peace throughout the world", affirmed its conviction that "economic peace will largely contribute to security among the nations" and emphasised "the necessity of investigating the economic diffi-

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[2]Bernhard Harms :—*Vom Weltwirtschaftskrieg zur Weltwirlrchafts-conferenz.*

culties which stand in the way of the revival of general prosperity and of ascertaining the best means of overcoming these difficulties and of preventing disputes". The history of the genesis of the Geneva Conference, the carefully collected information that was placed before it, the discussions which it held, the variety of opinion expressed by its members and its final conclusions and recommendations, throw very valuable light upon the post-war state of world economy and the severe crisis which characterises it. The members of the Conference were not government delegates but were representative experts. In a way, this was good as, unencumbered with administrative and political responsibilities, they could freely say what they thought about the situation with which they were confronted and the remedies which appeared to them most suitable. But this was also a disadvantage, if it may be so called, because the independent experts would not feel bound to give expression to the public opinion predominant in their own countries and to the special difficulties of their peoples and governments. In any event, however, valuable light could be thrown on some of the knotty problems with which the Conference had to deal, and this would be a distinct gain to all concerned. A serious obstacle in the way of the Conference obtaining a correct and a comprehensive view of the situation as a whole and of the interdependence of the various problems involved in it, arose out of the fact that two topics of vital importance, viz. German reparations and the interallied debts and European emigration to the U.S.A. were, obviously for political reasons, excluded from its purview. These two

factors have, however, had an important bearing upon the nature, the scope and the course of the present crisis, as we shall have occasion to show. Nevertheless, the Conference did not fail to grasp a correct appreciation of the whole position, a fact borne out by the scope and the freedom of its discussions. That the prevailing trouble is not the usual type of depression that follows a boom period and that its roots go far deeper and wider into the structure of the economic constitution of the world, is absolutely clear to its mind, and this conclusion was yielded directly by the statistics which had been compiled for its use.

In the introduction to its final report, the Conference points out the disproportion between the growth of the world's population and the increase in the world's production of raw materials and food stuffs. Whereas in 1925, the world's population was about 5 per cent. greater than in 1913, production of food stuffs and of raw materials was from 16 to 18 per cent. greater. While production and consumption, both in total and per head of the world's population, were greater than before the war, the increase was not accompanied by a corresponding expansion of international commerce, for the volume of trade in 1925 was only 5 per cent. larger than before the war. These figures do not, however, bring out clearly the relative position of the different continents. The production of Europe, whose population had increased by 1 per cent. was, in 1925, about 5 per cent. greater than in 1913, an increase materially slower than in pre-war years, while its international trade was only 89 per

cent. of the pre-war volume. Though the economic difficulties have been most acute in Europe, they could not but adversely affect the other parts of the world. Europe's reduced power of consumption of raw materials has undoubtedly told on the rest of the world, which has also been affected by "the fact that Europe has been compelled for the time being to renounce several of the functions in world economy which had previously been hers".[3] This last remark is pregnant with vital significance as furnishing a clue to the understanding of one of the revolutionary structural changes in the organization of world economy which has been responsible for the crisis of to-day. The present economic position of Europe *vis a vis* the U.S.A. and other parts of the world, the former country in particular, as compared with what it was before the war, furnishes abundant food for thought. Europe can take legitimate, if perhaps melancholy, pride in the consciousness that it has been a pioneer in founding colonies all the world over, that it has supplied capital for the development of the resources of all continents, that it has offered a big market for the raw materials and food stuffs of the west and the east, that its mercantile marine has carried the trade of the whole world, that its bankers have financed international commerce and that in short, the world has been Europeanized by it. Before the war, London was the financial centre of the world and the pound sterling was its monetary standard. Recently not the pound, nor the mark nor the franc but the dollar has ruled the world! For years it was the savings of the

[3] Report of the World Economic Conference.

French middle class and the profits of British business-men that had supplied the capital needs of the other continents as well as of Europe, and had given rise to and stimulated the flow of European manufactures abroad. For the time being, this flow was arrested if it was not stopped altogether. The financial centre of gravity was shifted from Europe to the U.S.A. While the leading European powers were engaged in the work of destruction in the war, American goods and American capital flowed towards Europe in an ever-increasing volume. The industrial and commercial expansion of the U.S.A. which had already been gathering speed before the war, received an extra-ordinary stimulus through this opportunity unexpectedly thrown in its way, and the economic supremacy of Europe for once passed to the American continent. A few statistics comparing the position before the war and in 1927, will be found illuminating. Dr. Bernhard Harms[4] brings out the contrast thus:—"Europe's credit balance overseas before the war amounted to some thing like £5,000 millions; by the latter year Europe had a debit balance of nearly £1,500 millions. The U.S.A. was indebted to Europe before the war to the extent of about £800 millions; now the indebtedness of Europe to the States amounted to £3,000 millions. The position of France and Germany which had credit balances in their favour, was altered into that of debtors to the outside world. Great Britain which had to her credit foreign investments of about £3,000 millions and was the first creditor nation in the world, did indeed recover the pre-war

[4] *Vom Weltwirtschaftskrieg zur Weltwirtschaftsconferenz.*

position, but was out-distanced by the U.S.A. in the annual investments abroad by lending to other countries twice to thrice as much as England. The U.S.A.'s lendings to central and south America and to the Far East have similarly increased. Even if the special loans advanced to the Allies for war purposes are left of account, the total of the States' investment abroad, used for economic development, reaches a huge total. It took England, it has been pointed out, nearly a century to build up a foreign credit claim of £3,000 millions. For half that amount Germany took a generation and a half and France nearly two generations for their £1,500 and £2,500 millions respectively. On the other hand, in the course of a single decade, the U.S.A. converted its debit of £800 millions in favour of Europe into a credit in her own favour of £3,000 millions! This is exclusive of the £1,500 lent to other parts of the world during the same period. Striking as these comparative figures are, they do not relate the whole tale. The real significance of this swing of the financial pendulum lies in the diversion into new channels of the old currents of the world's economic activities." International loans and investments create definite movements of credit, trade and industry in certain channels. In the pre-war world, the streams ran through their accustomed courses, when on a sudden, the war deluge came and threw the whole scheme of international borrowing and lending and of international exchange of goods into disorder. The loans granted to or credits created in favour of a country, are utilized by the borrower

in the lending country or elsewhere, mostly in the former, and the steady demand for goods thus arising, has been satisfied in certain proportions by the manufacturing nations. Though this arrangement of the distribution among industrial nations of the supply of manufactured goods in response to the demand resulting from loans, could not be rigid, it was a sort of a self-regulating system, and when it was disturbed as a result of war-made change, it meant the dislocation of the trade and industries of a number of countries in the world and, therefore, a serious disturbance of the organization of world economy. It was not thus the acutal destruction caused by the operations of war as the disorder into which it threw the international machinery of exchange and the system of the international division of labour, that has been the cause of the world crisis. M. Theunis, the President of the Geneva Economic Conference, brought out the matter neatly in the following words:—"The eight years of post-war experience have demonstrated the outstanding fact that, except in the actual fields of conflict, the *dislocation* caused by the war was immensely more serious than the actual *destruction*. The main trouble now is neither any material shortage in the resources of nature nor any inadequacy in man's power to exploit them. It is all in one form or another a mal-adjustment—not an insufficient productive capacity but a series of impediments to the full utilization of that capacity". Modern nations are not self-sufficient, and consequently their economic difficulties and the cures therefor are both international.

This conclusion has been endorsed in the report of the Economic Conference where we read:—"Moreover, the external obligations arising out of the war have an international significance. Taken in conjunction, on the one hand with the loss of their foreign investments which certain nations have suffered and, on the other, with the new loans which many of them have raised abroad, they have changed the balance of public and private indebtedness between nations as compared with the pre-war situation. This is one of the factors that ultimately involves a change in the distribution and direction of international trade, for the ultimate settlement of net balances due from one country to another must be made by means of goods and services direct to the creditor." As the position of Europe as creator and exporter of capital was seriously disturbed, the volume of its production and trade with the outside world underwent a change as an inevitable consequence.[5] The figures which have been quoted above, go to show that during the ten years succeeding the outbreak of the war, Europe's share in world trade was reduced by 15 per cent., while the other continents increased their share by 30 per cent. It is necessary to emphasise here that the set-back which the trade of Europe received and which is worse than what it has been outside it, must not be attributed to the conditions of war alone. What has, in fact, happened is that the war merely accentuated certain tendencies in the internal movements of world economy which were in

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[5]Europe's place in world economy has been instructively depicted by Dr. Bruno Kuske in *Die Bedeutung Europas fur die Entwiklung der Weltwirtschaft.*

operation long before 1913 and which have been already referred to. For wellnigh upon a century, the non-European world had contended itself with exporting its raw materials to Europe and with taking manufactured goods in exchange therefor. But since 1905-6, countries outside Europe realized,—and the discovery had been made by the U.S.A. twenty years earlier—that the time had arrived when they might and could manufacture the imported commodities themselves. This development of starting nascent industries was accentuated in countries outside Europe by the opportunity offered by the war. Europe, therefore, finds that its pre-war markets are now either captured or dominated or at least largely shared by outside competitors. As international, like internal, exchange springs from industrial specialization and the division of labour, any disturbances that occur in the latter, must be reflected in the volume and the direction of trade between the countries of the world. These are functional disorders of a serious kind and cannot automatically cure themselves, as is implied by the theories of trade fluctuations. If the cause of the disturbance is deep-seated and widespread, the remedy must be correspondingly radical. Nor is Europe's trouble due only to causes which lie out-side. Its internal industrial and trade organization has undergone no less disturbing changes. Central Europe has been split up in consonance with the policy of the treaty of Versailles, into a number of new independent nations which are inclined to guard their markets against the imports of neighbouring countries by means of high tariff walls, and the old territorial and economic integrity of that part of Europe has been

broken up. There are now 27 customs areas in Europe in the place of the 20 before the war. What grave derangement these barriers and the disintegration of all economic national and regional units, must cause in the economic organization of Europe, can be easily imagined.[6] In Europe, as elsewhere, the industrial enterprises and expansions which were necessitated by the war and were maintained as war measures, could find no adequate scope for the economic utilisation of their productive capacity after the restoration of peace; and serious mal-adjustment of demand and supply was the consequence.

The difficulties of the industrial situation in Europe may be found analysed in the report of the Economic Conference, and the chief among them, may be briefly summarised here:—(1) In certain countries sufficient capital has not been available. (2) Under present conditions the available markets are inadequate for the full employment of their productive capacity in a number of the principal industries of the world. (3) In belligerent countries plant in many industries was increased during the war period for military purposes beyond the scale required for peace. In other countries, new plant was installed to produce goods which could not be imported during the war, and the experience of the deprivations of war time has led many countries to think of making themselves self-sufficient. (4) Certain discoveries have brought about a change in the

[6]The case of Austria is particularly striking. The old dual monarchy has been split up in seven separate states and the old economic equilibrium of Central Europe has been destroyed. Refer to Zimmerman's speech at the Conference.

use of raw materials or in the utilization of sources of energy and a displacement of industrial centres. (5) Partially industrialized non-European countries have developed certain repair and finishing industries of their own. (6) In Europe itself, some nations with rapidly growing populations have enlarged their industrial equipment with a view to providing work to ever increasing number of persons. (7) There is a tendency in several nations to work up in their own territories raw materials produced in them. (8) Serious obstacles have been placed in the way of the movement of goods by tariffs and prohibitions and of the movement of persons by immigration laws. (9) The structure of the economic organization has altered as a result of changes in frontiers and of laborious re-adjustments of international relations. (10) There is considerable insecurity in the financial and monetary situation. Some of the above causes, the report of the Conference points out, are no longer operative though their effects may last after them. It is noteworthy that the Conference holds the view that other causes which were in operation before the war, "particularly the growth of industries in hitherto only partially industrialized countries must be considered as permanent and in the new world situation susceptible of direction only within very restricted limits." In the circumstances, the Conference concentrated its attention upon factors which, by their nature, in the existing circumstances, could be appropriately modified. Of these, the restriction and control of the movement of goods and persons and particularly those impediments which result from tariff and commercial policy, were the most prominent.

The Conference had mainly Europe before its eyes and wisely decided to discuss those topics its recommendations on which, had a fair chance of being given effect to. But even so, the problem of tariffs has been found to be too tough for solution though the educative value of the work of the Conference in that behalf cannot be gainsaid. Apart from the permanent causes of the present position of world's disequilibrium and causes which are deeply rooted in the political situation of Europe and of the other continents, there is room for improvement in the economic international relations by means of mutual co-operation and common agreement and for the discontinuance of policies dictated and bequeathed by the needs of the time of war, which are now calculated to do no good to any one. Some of these measures are, however, inspired by political distrust and fear. The pan-European economic union and the fiscal organization of the British Empire, on the basis of mutual preferences, have been proposed with the motive of overcoming such difficulties, whatever their possible consequences to the rest of the world may be. Such projects appear to be supported on the idea that they furnish a more solid foundation for union and understanding of peoples than the vague and dim ideal of a common humanity.[7] The speeches made at the opening session of the Economic Conference by experts hailing from different countries, make very interesting reading, showing as they do how the world crisis can be viewed from different angles of vision by people who have the special conditions and needs of their own coun-

[7] The drawbacks of projects of this kind were pointed out in the Conference and it was said that they would lead to the demand for Pan-American and Pan-Asiatic fiscal unions!

tries prominently before their eyes as well as the international situation. Probably the best analysis of the position in Europe, an analysis that revealed a true, deep and penetrating insight into the realities of the problem, was furnished by Mr. (now Sir) W. Layton of the *Economist* from England. His address which bore the title "Illusion of pre-war time," made it clear that Europe's position in world economy had so radically changed that its old ideas and guiding principles about its organization must now be replaced by new ones, more suited to the needs of the altered situation. In four distinct directions he sees the disturbance to have taken place. First, there is the dislocation in productive activities since the greater part of the outside world is being progressively industrialized. Secondly, the distribution of capital over the world has run into different channels, debtor countries having become creditors and *vice versa.* Thirdly, the distribution of population has undergone a change. Whereas the emigration from Europe would normally have shown a steady increase, actually its volume has been restricted and has decreased. The difference between the standard of living in Europe and on the other side of the Atlantic has enormously increased. Fourthly, the arrangements in connection with reparations payments and interallied debts have caused an extraordinary dislocation in international trade relations, in as much as they compel the debtor countries to increase their exports to cover payments abroad and at the same time, to provide for a surplus for their own needs while the creditor countries have to do the opposite, *e.g.*, their imports must increase and compete with their own

national industries. The revolution in Russia and the cutting up of central Europe into pieces, have added to the difficulties and made the confusion worse confounded.

The chronic disease of Europe, according to Sir W. Layton, requires drastic remedies. There are three directions in which a decisive move must be made. As there are in Europe ten to twelve million unemployed persons and eleven thousand kilometer of new customs lines and yet Europe spends yearly about seven hundred crores of rupees on armaments, the time has come when the common destiny of the whole continent must be generally recognized, so that the conviction has to grow in every mind that economically the nations must rise or sink together. This common material welfare can be secured only through production which on no account should be allowed to be restricted. Europe must decide to work on the principle of the division of labour, to be adopted not only by individual industrial undertakings but by all countries so that there may arise a steadily expanding exchange among them. For this purpose, reduction of tariffs here and there will not be enough; the task must be undertaken in right earnest and on an extensive scale. It is a courageous remedy and foreshadows a wholesale economic reconstruction of Europe. The report of the Conference itself is not optimistic and says in this behalf that "it has to be recognised that the possibility of Europe being organised as an economic unit is more remote than before the war, partly because of excessive nationalism, which was the natural consequence of the war and is only now subsiding and because of the economic consequences of

retracing frontiers." The nationalization and the territorial readjustment resulted in the duplication of industrial plant and in a failure to apply the principle of the division of labour between the States of Europe. Old markets provided by certain areas have been lost and new ones have had to be searched for. Greater liberty for trade and commerce is, therefore, the specific of the Conference for the prevailing trouble. The Conference report has attempted to refute some of the arguments which are usually advanced in support of protective tariffs and suggested to national governments practical measures gradually to lower tariff walls and to stop practices that place obstacles in the path of the international exchange of goods. The recommendations and the principles underlying them certainly received the support of the majority of the members, some of whom, however, did not fail to defend the nationalist policies of their countries and to criticise the projected European customs union. It was very well for the advanced industrial nations to propose that the world's markets should be thrown open to their goods, some of them must have thought, and they must have felt tempted to ask, "but what about our people who will be thrown out of work and what specialized employment should be provided for them and by whom"? The representatives of the newly created European nations were naturally deeply concerned over this matter and of course reflected the views of industrially backward countries which are struggling to correct the defective and one-sided character of their economic organization. Mr. Gliwic, a former commerce minister of Poland, for instance, saw the greatest difficulty in the way of the improvement of the econo-

mic situation in Europe in the fact that most countries are interested as much in manufacturing as in agricultural development. Driving back the rising industrial nations to the rank of purely agricultural countries is not, he affirmed, in the interest of the big manufacturing nations also. Most countries need capital for industrial development, and this cannot be had without protection. The principles of free trade are not applicable in such cases. The position and the needs of agriculture were put before the Conference by some speakers. They contended that to-day farmers are not able even to cover their costs, and as agriculturists form a large part of the population of almost all countries, unless their purchasing power is increased, no amount of industrial and commercial progress will be of any avail. Representatives from the U. S. A. were interested members and those from Russia were both interested and interesting. As the two most important questions in which the co-operation of the United States is keenly desired in Europe, *viz.*, international debts and emigration, were excluded from the agenda of the Conference, the former had little to say, though several appealed to American sympathy in those matters. It was even pointed out that it was European capital that had made America the wealthy country that it had become and that the capital had been lent at low rates of interest whereas the U. S. A. was now sitting tight upon its millions and was charging high rates on what Europe had borrowed. The Americans, however, kept mum. As one writer[8] pithily observes, they listened and were

[8]Arthur Feiler: *Neue Weltwirtschaft: Die Lehre von Gens.*

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silent. On the other hand, the motto of the Russians, according to the same writer, was "Speech is silver, silence is—credit." They praised their own communistic system and defended their State monopoly and control of trade. This was, however, purely a domestic question. Russia had increased her production of food stuffs and raw materials which the outside world was badly in need of for its economic improvement. All that Russia required was capital—credit. The Russian representatives said in effect: "We have organized our agriculture and industry in the most efficient and up-to-date manner and are capable of supplying to the world the food and the materials it badly needs. Help us with capital and credit to develop our resources and to export our products and we shall import your manufactures in increasing quantities. It will materially assist the economic rehabilitation of the world." This was a good poser for the Conference.

In spite of the complaint constantly heard that producers could not find adequate markets for their output, the opinion seems to have been widely held that a limitation of productive activity was not desirable and was indeed not called for. One is here reminded of the over-production theory of crises and J. B. Say's counter theory of the markets. This question was specifically taken up at the Conference by the well-known Swedish economist, Prof. Cassel. Among the sophisms which sway the public mind, he said, there is none more dangerous than the idea that the productive capacity of the world exceeds by far the purchasing power it possesses. This doctrine of over-production and insuffi-

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cient purchasing power is false. The fact is, on the contrary, that the production costs of industries are too high and, therefore, their output is too dear. The primary production can ill afford to bear these high costs, with the result, first, that there is inadequate offtake of the products of industry and there is unemployment among the industrial workers; and second, agriculture is not properly developed in as much as it does not receive an adequate supply of the equipment necessary for its operations. The effect of all this is that the world economy is, in its entirety, poorer and humanity is badly served with the necessaries of life and comforts. The causes of the unnatural rise in prices of the products of industry, which is not compatible with the actual market situation, Prof. Cassel traces in the prevailing monopolistic tendencies of which three different kinds he distinguishes, *viz.,* protective tariffs, trade unions and cartels and trusts. As a part solution of this problem, the Economic Conference suggested the rationalization of industry, a remedy to be applied by the side of the reduction of tariffs. Stabilisation, standardization and simplification were the three elements that made up its concept of rationalisation. It is believed that the United States of America owed, in no small measure, its recent industrial prosperity and economic power to improvements in these three spheres. The Conference understood rationalisation in a comprehensive sense, which meant the scientific organisation of labour, the standardisation of materials and products and the simplification of productive processes and the improvement of the machinery of transport and distribution. The question of the relation of

rationalisation of industry to unemployment, has been recently discussed in many quarters, and the Conference was not blind to the temporary unfavourable consequences which its application was calculated to involve in the case of certain categories of workers. Temporary unemployment, it was recognized, was inevitable though in the long run, workers were bound to benefit by the improvements both directly and as consumers. It was expected that as a result of the judicious and constant application of the methods proposed, rationalisation would secure to the community greater stability and a higher standard in the conditions of life; to the consumer lower prices and goods more carefully adapted to general requirements; and to the various classes of producers higher and steadier remuneration to be equitably distributed among them. As the interests of the working classes were intimately associated with the effects of rationalisation, the Conference uttered a word of warning against policies that would injure the legitimate claims of labour and recommended that suitable measures should be provided for cases where during the first stage of the realisation of the improvements, loss of employment or more arduous work may result. It was also suggested in regard to the organisation of labour in the strict sense of the term, that the co-operation of the employees and the assistance of trade organisations and of scientific and technical experts should be sought. This concession to labour organisations, was not approved by the representatives of certain industrially advanced nations and they fought against it strenuously. The different angles of vision which were brought to bear on the

consideration of such problems by the representatives of various interests and countries and the comprehensive and accommodating nature of the views which the Conference had to adopt on controversial questions, are apparent in the debates and also in the conclusions of that assembly. The representatives from Austria, for instance, suggested that rationalisation should be applied also to smaller industries and handicrafts and that the co-operative form of organization should be adopted for the purpose. The suggestion was approved. In fact, consistently with the main object of the Conference, any proposals which were calculated to promote efficiency, the reduction of costs, increased yields and better distribution of commodities, were sure to receive its sympathy, approval and support.

It is a well-known fact that the Treaty of Versailles itself provided for the establishment of an International Labour Organization, and that body, duly created, now devotes itself to the consideration of problems that specifically affect the condition of workers. As the whole economic machinery of the world came under review at the Geneva Economic Conference, the condition and the interests of workers had to receive its attention. These were bound to come up in the discussion of almost every problem which the Conference took up. The relevant consideration here is the place of labour in world economy and in its proposed reconstruction. International understandings with respect to tariffs and industrial organization have been proposed for restoring healthy conditions in the economic life of the world. The International Labour Organization is

already there, and under its auspices, consultations are regularly held between employers and workmen regarding conditions of work in factories, wages, hours of work and so forth. The conflict between organised capital and organised labour, particularly in industrially advanced countries, is patent enough. And it may be inquired, how is the international solidarity of labour effective in the midst of the difference in industrial, climatic, social and economic conditions generally between various countries? Do special national conditions and interests claim attention in relation to labour as they do in relation to tariffs, for instance, and is common action rendered difficult and some times considered undesirable on that score? The chief object of the International Labour Organization is to improve, by international or common action, the prevailing conditions of labour which admittedly "involve injustice, hardship and privation to large numbers of people," and that this aim is being steadily fulfilled to the undoubted benefit of labour in the East as well as in the West, by the action of that organization, will be readily admitted, though some would maintain that the progress towards the goal is too slow. It is worth while noting here that questions often arise in the discussions of the international labour conferences in connection with the adoption of certain conventions which, it is represented, are not suited to the peculiar conditions of particular countries, though they may be beneficial and essential elsewhere. Uniform hours of work cannot, for instance, be prescribed for all countries of the world irrespectively of the consideration of the varied conditions prevailing in different parts of the globe in

regard, among other things, to climate, and it is contended that if such uniformity were to be imposed, the industries of some nations would suffer and with them, local labour itself. Reservations are, therefore, made in the matter of certain conventions on behalf of nations which fear that their economic interests are likely to be adversely affected if they were to be implemented. Special national considerations cannot thus be escaped in this field also.

Certain observations made by Prof. Bowley[9] on a topic allied to the above discussion, are worth quoting in this place. With respect to the International Labour Office he remarks that the considerable support which that body has received "is due to a curious blend of egoism and altruism, of national selfishness and international sympathy and is often mistaken economic theories that lead the former to give play to the latter." He refers chiefly to the fallacy in economic thought which is expressed by the "pauper labour" argument. To quote his own words, "it is held that a country, where the workers are paid at low rates and whose employers avoid the expenses of appliances for safety and of good working conditions, competes unfairly with a country with a higher standard, with the result either of unemployment or degradation of standard. Hence it is to the interest of any progressive nation to raise the conditions of the backward, especially at a time when the standard is being improved." His comment on the above is that "it is a pecuniary advantage to one nation,

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[9]*Some Economic Consequences of the Great War.*

if the inhabitants of others will work hard and for little remuneration in producing needed goods, just as it is an advantage if they develop their natural resources or increase their efficiency." Prof. Bowley points out two important exceptions to this general principle, which both relate to periods of change. If Japanese labour competes with British labour in the Indian market owing to longer hours of work and lower wages in Japan, the former will dominate the market and there will be unemployment for a time in Lancashire. The antidote to cheap labour, according to him, however, is not artificial protection, but the greater efficiency of well-paid labour. But as a matter of fact, Lancashire did receive some consideration recently in the protective tariff of India. The other exception refers to cases where it is desired to improve the conditions of labour, in circumstances where the improvement does not result immediately in greater efficiency. If the improvements concerned are introduced in some countries but not in others, the former are likely to lose both their home and foreign trade to the less scrupulous manufacturers. The result will be more or less permanent unemployment and distress. These examples show the possibilities and the limitations of common action for the improvement of the conditions of labour in countries differently situated. Care has only to be taken to see that the differences are not made a pretext by employers for not making improvements which are both feasible and desirable and also that impracticable claims are not put forward on behalf of workmen.

The main assumption underlying the rationalisation of industries is that deliberately planned improve-

ments in their processes and organisation, will reduce cost, cheapen commodities to the benefit of consumers and workers, stimulate demand and promote general economic activity and prosperity. Socialist and labour opinion is not opposed to rationalisation as such provided it helps to raise the standard of living of the working classes without increasing their working hours and reducing their wages. Labour naturally resists attempts on the part of capitalists to secure relief from the burden of taxation which is necessitated, in large part, by national expenditure on social services, in which workers are directly interested. Conditions in this respect vary from country to country which complete with one another, and it is difficult to see how the rationalisation of world economy is to be brought about in the circumstances. From the socialist point of view, this can be achieved only through the substitution of a regulated and socially controlled system of production and distribution for the existing chaotic individualistic management of industry and trade. Wealth is being produced in abundance in the world, it is argued, and there is no lack of capital, labour and consumers; and what is really wanting in the vast mass of the world's population is sufficient purchasing power. Capitalism is incapable, the contention runs, to cure the prevailing disequilibrium, and the rationalisation of world economy is possible only on the socialist plan. Unbiased observers are not prepared to accept this conclusion and feel convinced that the world may be worse off under a socialist regime than it is under the prevailing system, of whose drawbacks they are not unconscious. Some thinkers already perceive a striking, if an uncon-

scious, change coming over the spirit of capitalism itself, undoubtedly under the pressure of the socialist movement and of changing social conditions. This modified form of capitalistic organization is called "social capitalism" to distinguish it from the old type of individualist capitalism, and it is supposed to combine in itself the good points of both, individualism and socialism, in as much as it evinces a sense of social responsibility.[10] It is believed that economic rationalisation, such as was recommended by the Geneva Economic Conference, is calculated to bring the world nearer to the realisation of the ideal of human well-being which every one has at heart. Animated by this motive, the Conference strongly recommended the rationalisation of agriculture as well as of industry and commerce. It declared that "the interdependence existing between nations is no less close between the main classes of occupations—agriculture, industry and commerce—and it would be vain to hope that one class could enjoy lasting prosperity independently of the others." Having referred to the causes of agricultural depression, to the low prices of land produce as compared with those of manufactures and to the reduced power of consumption of farmers, the Conference suggests co-operative organisation for credit, sale and purchase on a national as well as an international basis, as an effective remedy for the slump. Other measures, legislative and educative, are proposed with a view to protect the interests of agricultural labour and to increase the efficiency of the industry. The development of agriculture on the principle of specialization, is also suggested. It is not rele-

[10]See Hantos: *Die Rationalisierung der Weltwirtschaft.*

vant to our purpose to go into the details of these recommendations nor to estimate the value of the work done by the Conference in this and other respects, and we shall content ourselves with the summing up of Prof. Hantos[11]:—"Economic peace, interdependence of peoples, liberty of commerce and rationalisation are the ideas which have inspired the resolutions of the Conference and animated its expert members. In order that they may be given effect to, it is necessary that the ideas should receive the support of the economic and social classes whom they concern and of governments which desire to contribute to the rehabilitation of world economy."

[11]Elemer Hantos: *Die Weltwirtschaftchaftskonferenz;* and *L'economie Mondiale et la Societe des Nations.*

V.

THE CAUSES AND THE CURE.

Although representatives of almost all the important countries in the world attended and participated in the Geneva Economic Conference of 1927, that assembly discussed the problem of the universal crisis mainly from the point of view of Europe, and its chief recommendations related to the tariffs. It could not, however, but occur to many that if the world crisis was due to the disturbance of the equilibrium between the output of industries and the demand for commodities, one effective method of re-establishing the balance would be to regulate the supply through some international organisations so that it would conform as closey as possible with the demand. Under this scheme, production and sales would be so arranged that the distribution over different markets would be satisfactory, and it would have the further advantage that it would enable prices of commodities being fixed and that their constant annoying fluctuations would be avoided. The cartels and trusts which already existed before the war, demonstrated the possibility of doing it on a much larger scale, and if this scheme succeeded, the difficulties not only of the present crisis but even those of ordinary trade fluctuations could be effectively negotiated. Cartel-like unions[1] existed in several branches of industry in Europe before the war, and such organ-

[1]It is estimated that about 70 per cent. of the capital invested in joint stock companies in Germany is controlled by cartels.

izations were not wanting even in England.[2] After the war, the movement was accelerated owing to the difficulties encountered by manufacturers in facing competition and then it increasingly assumed an international character. The cartel appears to have this advantage that while trade agreements can be concluded by two states, the international organisations can spread themselves over several countries and even cover the whole world. They are, besides, founded strictly on the economic principle of international solidarily as opposed to the separatist policies of states. It is claimed for the international cartels that the waste and the injury involved in the protectionist and dumping policy is altogether eliminated since these bodies organise production in its various branches in a rational and well-planned manner and arrange for the smooth disposal and distribution of commodities. The Continental Steel Cartel founded in 1926 with manufacturers in France, Belgium, Germany and Luxemburg as partners, showed how production of steel could be regulated by the co-operation of the leading countries of the European continent, and how it was possible that economic and even political harmony would be achieved in a large measure if the movement could be spread far and wide over national boundaries.

The Economic Conference devoted some attention to this subject, but the idea of bringing about peace between national States in Europe and removing the impediments which obstructed the free movements of

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[2]See Harmann Levy: *Monopolies, Cartels and Trusts in British Industry.*

trade, by means of international industrial agreements, does not seem to have appealed to it. There was a clear divergence of opinion in the Conference on this question, and therefore, it was recognized that "the phenomenon of such agreements, arising from economic necessities, does not constitute a matter upon which any conclusion of principle need be reached." It was felt that the development of the system of cartels must be considered as good or bad according to the spirit which rules the constitution and the operations of the agreements and, in particular, according to the measure in which those directing them are actuated by a sense of the general interest. From the point of view of the chief object for which the Conference had been called, the utility of trade agreements was extremely limited. The field of operations for cartels is mainly restricted to branches of production which are already centralised and to products supplied in bulk or in recognised grades, and therefore, in the opinion of the Conference, "they cannot be regarded as a form of organisation which by itself alone can remove the causes of the troubles from which the economic life of the world and particularly of Europe is suffering." In some cases, it is true, agreements may be so worked that they may control production to the advantage of consumers and without disadvantage to the workers. Nevertheless, the Conference recognises certain tendencies in the constitution and the working of cartels which have possibilities of mischief which arise from the power of monopoly they enjoy and have reference to artificial prices, unjust discrimination against countries and interests and harmful restriction or holding up of pro-

duction; and therefore its attitude towards industrial agreements is one of extreme caution and even lack of sympathy. Words of warning on this subject were uttered by some speakers in the Conference, and among them, by a representative from the U. S. A. A somewhat blunt critic[3] attributes the preference shown by France for international cartels even at the cost of delaying measures in favour of lowering tariff walls, to the desire to advance the cause of certain industries which had developed strongly during recent years on the French soil. This may be an observation of a prejudiced critic, but it is noteworthy that a responsible German representative objected to international cartels on the ground that they enabled some countries to carry out their protectionist policy in other countries and at the cost of the latter, and by raising the prices of intermediate and primary products, prejudiced the interests of other industries dependent on the supply of those materials.

The subject of trusts and cartels will be found elaborately dealt with in economic text books. By some, this form of organization is regarded as a natural outgrowth of the capitalistic system and its logical consequence. Production on a large scale and at the lowest cost practicable, requires vast quantities of capital, but enables purchases of raw materials being made at cheap prices and other like economies being effected. Competition of a severe kind which is a feature of capitalism and which, it is supposed, conduces to the best interest of the consumer by cheapening commodities, leads to

[3]See Arthur Feiler: *Neue Weltwirtschaft.*

combination among producers and to monopoly. Combination makes it possible for industrial organisers to fix selling prices at a sufficiently high level either by creating a monopoly, thus eliminating competition or by restricting and regulating the supply. Whatever form the monopoly may take, the risk of the dangers inherent in that method of organisation, is ever present. Economists do not consider that trusts and trade agreements are themselves an evil, and it is possible that the monopolist will find it to his interest both to give to buyers good quality and to keep prices low. This statement of the underlying principle does not, however, answer the question which is relevant here *viz.,* are international trade agreements calculated to prove an antidote against unhealthy rivalries and tariff wars between nations, because they are purely business propositions voluntarily arranged by the subjects of different States? Some are very sanguine about the effects of such agreements and would like their number and scope to increase in the interest of international peace and harmony.[4] Others look upon them as a fruitful source of mischief, if not as an unmitigated nuisance. The former point their finger at the numerous cartels which are to-day in control of the supply of raw materials and metals all over the world and believe that that example shows the way to a very promising method of bringing about the rationalisation of world economy. They hold that trade agreements do not mean doing away with competition but rather a suitable and beneficial regulation of it. The opponents of such

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[4]See Elemer Hantos: Die *Weltwirtschaftskonferenz und Die Rationalisierung der Weltwirtschaft.*

organisations, on the contrary, assert that these bodies prevent the prices of a number of important commodities being settled in the world market by the free play of competition and allow the price fixing to pass into the hands of groups of capitalists who care more for their own profits than for any thing else and who tend to form a growing class of dividend receivers. Some critics see in the post-war tendency towards expanding monopolistic capitalism, a movement of individualist *entrepreneurs* into the arms of socialism.

It was felt by some of the disappointed supporters of international industrial agreements that the Economic Conference did not give to the consideration of that subject that careful attention which it deserved; and that for lack of support from that influential assembly of experts, the idea so fruitful of beneficent possibilities for the peace and wellbeing of the world, receded to the background. The fear of the possibility of cartels abusing their monopolistic predommance to the detriment of consumers and industries in certain circumstances, swayed the minds of many of the members of the Conference, and it was found difficult to devise a scheme under which a wholesome, effective restraint in the interest of the public would be exercised. It was really the uncertainty as regards the working of the monopolistic bodies in relation to the many important interests affected, that was responsible for the hesitation felt at the Conference in countenancing a movement that might lead the economic life of nations and classes any where. The control of public opinion was suggested as a sufficient safeguard in the absence of an international agency; but it is notorious how capitalistic

organisations can snap their fingers at such watch dogs. The comment of a Russian representative on this proposal was significant. He said:—You speak of the control of cartels by public opinion. But have you considered the possibility that it may turn out quite the contrary and these powerful cartels will control public opinion? Whatever developments may take place in the field of international agreements in the near future, one or two things are worth remembering here. The possibility of cartels acting as agencies for harmonising the economic as well as the political relations among the nations of Europe and also outside, is likely to depend upon the general atmosphere of national and international feeling. By themselves, the cartels represent the unmistakable tendency which modern capitalism has shown, particularly as an effect of the experiences of the time of the war and of the period immediately succeeding the close of the war, to favour mergers and amalgamations, to divorce the individual entrepreneur from the management and direct control of industry, to stabilize the conditions of production and distribution and to eliminate the uncertainties inherent in modern capitalism with respect to market fluctuations. How this change in the very structure and the spirit of the economic community which the necessities of war conditions have brought about, will react upon and will itself be influenced by international political relations and the nationalism of States and peoples, it is difficult to say.

As Europe's internal economic and political situation is a factor of outstanding importance for a

correct appreciation of the origin and the course of the present world crisis, an impartial observer and a dispassionate student has to probe the position to the bottom to get at the truth. Politically, the international relations in Europe to-day are so delicate that most of those who deal with them, have to skate on thin ice. But an outsider cannot but be struck with certain points of resemblance and difference when the present internal situation of Europe is compared to what it was a hundred years ago. When Europe was politically resettled according to the principles accepted at the Congress of Vienna, a determined effort was made by the leading nations to co-operate to adhere to the territorial arrangements and the balance of power established. The principle of nationality was altogether ignored and that of legitimacy and stability was favoured. To the Holy Alliance was entrusted the duty of supervising the internal, national as well as the international situation and to intervene when there was a danger of political upheavals upsetting the settlement which it had cost considerable trouble to effect. Careful precautions had been taken against the possibility of France repeating her revolutionary and military misdeeds, and the whole delicate balance of forces of national and international import, which included economic as well as political, social and intellectual movements, was anxiously watched from day to-day. Now, what is the situation to-day? The Treaty of Versailles has resettled Europe on certain definite principles. The principle of nationality has not only been recognized but has been widely extended and solemnly guaranteed. Complete internal

freedom exists for the nations to order their political constitutions and economic systems just as they like. Thus republics and monarchies, parliamentary governments and dictatorships, Fascism and Bolshevism are seen to dwell cheek by jowl. The League of Nations has been established to maintain peace and harmony and is not, like the Holy Alliance of a hundred years ago, a coterie of reactionaries and enemies of political freedom, though of course, the Great Powers wield decisive authority in it. All this is in refreshing contrast to the principles and policies which found favour with leading European nations in the last century. But the canvas is now bigger, the problems to be faced are more complicated and the field for the play of international distrust and jealousy is much wider, being spread over the whole world. A good deal of bitterness has been aroused by the manner in which Central Europe has been cut and pared and its long-standing equilibrium has been broken up, and by the burden of reparations which has been imposed on the shoulders of Germany. Disapproval is likewise expressed, albeit in hushed voices, of the resolve of the United States of America to remain a sympathetic observer and friend instead of becoming an active member of the League of Nations. And Russia occupies a singularly special position, distrusting and being distrusted by all.

A future historian alone will be in a position to say how these arrangements work themselves out. Nor is it necessary for the purpose in hand to judge

of the fairness or unfairness and the justice or injustice of the political settlement of Europe effected by the Treaty of Versailles or of the attitude of the Powers of Europe towards one another. What is material to the issue under discussion is an understanding of the economic bearings of the political conditions not only in Europe but also in the other parts of the world as they have been moulded by the events of the time of war and its aftermath. The consequences of Europe's war with Napoleon were indeed far-reaching, but they are nothing as compared with the experiences the world is going through at the present moment. The area covered by the effects of the last war, significantly called the world war, is vastly greater than the territories and populations affected in the beginning of the last century; international and inter- regional economic relations have become exceedingly more intimate and complicated; the nature, the volume and the power of financial capital have undergone a radical change; a number of new nations have been born and they feel and profess an intense consciousness of political and economic independence; the east and the west have been brought face to face with each other as they had never been before. The political system of Europe as established after the close of the great war must be understood to be only a part of the political and economic system of the world. Politically independent nations are economically inter-dependent and *vice versa;* and these states of independence and dependence act and react in the most powerful fashion. The problem before the world to-day is how to build a universally beneficial economic harmony

on the foundations of the inevitable consciousness and the reality of independent and free nationality. It must be realized that no satisfactory solution of the problem is possible if people shut their eyes to or try to slur over diversities whose harmonious blending alone will create an economic world unity. The astounding change which has taken place in the political and the economic balance of the world must ever be kept in view by every one who wishes to study and seeks to find solutions for the above problem. Members of the Geneva Economic Conference did their best with the task with which they were entrusted, as, without raking up the political sore of Europe's international disharmony, they attempted to apply to it the soothing balm of the appeal to national interest which, in the case of European countries was, in their opinion, bound up with free exchange. It is extremely instructive to note that the Chinese representative bluntly asked them to realize how a nation like his must feel when its tariff policy is dictated by other nations. He demanded for his country full freedom and independence in deciding its fiscal and indeed its whole economic policy so that with a judicious use of it, exports of Chinese goods may be made to benefit the world. The Dominions in the British Empire enjoy this freedom and India is asking for that privilege. Egypt is no less keen on economic as well as political independence, and the newly born or awakened States of Asia as well as those of Europe, are bound to display the same tendency.

One important question which has an intimate bearing upon the economic rehabilitation of Europe directly and of the world in general indirectly, may be briefly mentioned at this stage of our discussion. And that is the question concerning the German reparations payments. Its purely political aspect may be left aside, and its economic bearings alone may be here considered since they have to do with the economic balance of the internal relations of the world. It is not relevant for us to enquire into the whole question of the manner in which the German "tribute" has been calculated and fixed, in what particulars the Young Plan differs from the Dawes Plan and what are the detailed arrangements which have been made for the collection and the payments of the amounts to the Allies. What is material to our discussion is to know whether the burden of the reparations payments is or is not too heavy for Germany to bear and whether the strain upon the party paying and the parties receiving will be too much for the economic machinery to sustain. It is, of course, possible that the views of the creditor and the debtor will naturally be at variance, when it is a question of economic gain and loss. In any event, it is worth while knowing how matters stand in that respect. There are three distinct operations to be considered here, first, the raising of the amount of the reparations in Germany according to the plan laid down, secondly, the conversion of the sums thus collected in German currency into foreign currency, and thirdly, the transfer of the sums to the recipients. It is contended on behalf of Germany that a tribute amounting on an average to £100 million a

year and payable for a number of years, is beyond the capacity of the nation, however sincerely it may desire to meet the obligation. Whatever difference there may be on this point, it is reasonable to think that the estimate may be re-examined in the light of the experience of a few years. The decisive test will be whether it is economically possible for Germany to produce the required surplus year after year without damaging her sources of wealth-creation permanently. Independent experts may be expected to throw light on this question. With regard to the obligation to find foreign bills, *i.e.,* claims on foreign countries, to be transferred to the recipients of the payments, it is asked, how is Germany, with her colonies gone and with no assured balances in her favour waiting to be paid to her, as they are in the case of England, with little prospect of large savings and accumulations of capital and with a heavy burden of internal taxation, to secure the resources to meet the demands as they arise? Dr. Edgar Salin,[5] who has discussed this problem from a scientific point of view, puts the case as follows:— According to the abstract classical theory, there should be no difficulty in carrying out the conversion and the transfer of the sums stipulated. When German currency is brought forward for the purchase of foreign paper, the demand will push the rate of exchange to the gold point, there will arise a stringency of credit, a rise in the rates of interest and discount, prices will fall, particularly of exportable commodities and then will follow, as a natural conse-

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[5]*Die Deutschen Tribute.* See also *Das Raparations Problem,* edited by the same author.

quence, an increase in export trade and in the supply of the export bills needed for the payments of the tribute. Now, this line of theoretical reasoning is based upon three assumptions: First, that there must be free competition in the internal markets, which will raise prices and wages; second, that there must be free intercourse and trade between nations, so that the cheapest commodity, in whichever country it may have been produced, will be preferred; and thirdly, in all the countries concerned, there must be in operation the gold standard in its classical form. So long as the conditions assumed in the classical argument are not present, and they are certainly not present in the case under discussion, the conclusion that the German payments can be made without serious difficulty, is untenable. Germany must pay her creditors by selling her commodities cheap in foreign markets, but will other countries, including the creditor nations, the recipients of the reparations themselves, be willing to permit this kind of "dumping", in the interest of their own industries? It is, of course, obvious that even if it were practicable for a brief period, the German payments could not be made indefinitely out of foreign borrowings from year to year. The conclusion is, therefore, advanced that in the midst of the economic depression, which without the additional trouble with respect to the German payments would be serious enough, with tariff walls menacingly looking down upon one on all sides, with the equilibrium of the world's markets gravely disturbed, with wide-spread unemployment in all countries and with shortage of capital and credit confronting industries everywhere,

an effort to exact from Germany the full payment of the sums fixed in the Young Plan, cannot but embarrass the already distracted world economy and accentuate the crisis. The following sober comments of Prof. Bowley[6] on these arrangements will be found interesting:—"Till 1930 this problem has not become acute, since the United States has invested large sums in Germany, which, though not available for direct payment of reparations, have made possible a balance of trade out of which such payment has been possible. But in the end payment must be made by actual exports from Germany, and these are the kind that compete with the industries of the creditor countries; so that there is the paradoxical situation that Germany is prepared to pay and the creditors wish to be paid, but no means of payments is acceptable. The whole sum in question, some £100 millions a year, is not large in comparison with the whole volume of international trade, or with the usual annual movement of capital or interest; and opinions differ as to the amount that can be transferred without serious disturbance." To facilitate the payments of German reparations, a Bank for International Settlements has been established as a part of the Young Plan, and it is arranged that reparations will be paid into it and the creditor nations are to draw their shares from it. While the new Bank will perform this specific function, it will, it is hoped, also serve as a suitable agency for maintaining the stability of international finance

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6 *Some Economic Consequences of the Great War.*

and for stimulating world's trade, thus working, to all intents and purposes, as the Central Bank of Central Banks. While not denying the technical utility of this new banking institution in general, Dr. Salin expresses serious doubts as to its capacity to facilitate the execution of the second part of the plan which has been assigned to it. He thinks it is an idle dream, and places the Bank in the same category as the highly idealistic schemes of Widrow Wilson, e.g., the League of Nations, which, in his opinion, are based on assumptions of the existence of a world state and of a supernational spirit.

The attitude of the United States towards the question of debts owed to it by the Allies and of the Inter-allied debts, has been debated long and at great length. It was suggested at one time that the Allies and the United States, as partners in a great cause, should cancel their mutual debts, and as the biggest creditor, the American nation would be doing a noble act that would give a generous relief to the war-afflicted world and stimulate its material and moral revival if it consented to this arrangement. But for reasons the discussion of which is not relevant here, the U.S.A. insisted upon the repayment of the debts it had advanced, on such terms as would be mutually agreed upon between the parties. The Allies, therefore, decided to fix the sums to be received from Germany at such amounts as would enable them to compensate them for the losses they had suffered at the hands of the enemy and also to pay

off their debts to the U. S. A. Germany's burden would have been reduced considerably if she had to pay only for the former purpose. But the position now is that Germany's obligations have had to be put at a high figure which provides for the Allies' payments to the United States and for the reparation of their own losses. Dr. Salin has described the procedure of payments pithily thus:—Millions flow out of Germany to the Allies; from the Allies millions flow to the United States; this means that there is only one big war creditor and only one big war debtor, viz., the U. S. A. and Germany. In other words, the tribute that Germany pays for reparations is destined for the United States and serves there for the re-payment of American loans of the Allies. Now, it is easy to understand what complications and difficulties must be introduced into the international system of the world when large sums have to be raised and paid annually by Germany to the Allies and by them to their big creditor in America. And these payments are to be made and received in the midst of conditions in which the paths of exchange are on all sides blocked and obstructed by fiscal and other restrictive policies. Little wonder that from all quarters the cry goes up that tariff barriers be pulled down and that the channels of economic movements be made free and smooth. But the irony of the situation is that nations, large and small, have to keep their industries alive and have themselves to live. They are afraid of their markets being flooded with goods of foreign origin which compete with their own manufactures and other products and feel the necessity of self-protection. All the same, avoidable

obstructions can be removed and reasonable agreements may be reached between nations with respect to tariffs. When all is said and done, however, it should be clearly understood that the world's pre-war economic equilibrium it will not be possible to restore and that nations will have to adjust themselves to the new conditions as they have developed, in the best manner they can. In the peculiarly constituted world economy of to-day, this result is inevitable.

This conclusion is forced on one by a careful observation of the efforts each nation is making to improve its economic condition by individual action as far as it can go, e.g., for finding new markets for its goods and by international co-operation wherever that is practicable. How nations will emerge out of the struggle against the difficulties, mainly the legacy of the war, and how world economy will be constituted in the near future, it is impossible to say. All we can do to-day is—and that is extremely essential and valuable work—to observe and describe how the political and economic forces let loose by the war are working, and it is the duty of the world's statesmen to direct them in such a manner that they may contribute to the good of individual nations and of humanity as a whole. It is a happy augury for the future of civilization that mutual dependence of peoples for their economic well-being has been vividly brought home to the minds of leaders of men and thought everywhere, and all avenues of international co-operation are being explored for common action and harmonious policies. The horrors of war have sunk so deep into the hearts

of men that the maintenance of world peace is coming to be regarded as an indispensable condition for the safety of civilization. The democracies of the world of to-day may be supposed to have a more lively consciousness of this than the politicians of the past generation could, and organized labour may be counted upon to exercise appreciable influence in preserving peace and in declaring an outlawry of war. The progress which is being made towards the limitation of armaments by international understanding and agreements, is a hopeful sign of the favourable conditions which are being created for the improvement of economic conditions. It appears as if Imperialism, both political and economic, will no longer be tolerated as an instrument for the exploitation of one nation by another, and full national liberty of action will be claimed and will have to be conceded. Political peace and economic harmony will have to go hand in hand. As internal peace and order are essential for the smooth running of the machine of national economy, international peace and harmony are a condition precedent to the healthy and beneficial operation of the organisation of world economy; and as our theoretical discussion and our practical illustrations have shown, the destinies of the two are closely linked together. What is the ideal form of the constitution of world economy? It is one in which, in the absence of a world state, its constituent elements try to make the most of their physical surroundings by the most efficient organization of the production of wealth and of its national and international exchange. A maximum supply of goods and services and its unfettered

distribution among the peoples of the the earth, on the principle of the greatest mutual benefit, is the correct and proper basis of the internal relations of world economy. This ideal arrangement is, however, modified in practice by the intervention of national, class and group interests which tend to mould the world economy in different ways.

How these influences worked in international organisation before the war, what changes have taken place in their operation in the after-war period and how they are likely to come to an equilibrium under altered world conditions,—that is the crucial problem that confronts us to-day. Liberalism, nationalism, imperialism, capitalism and socialism are the chief, powerful forces which act and react on one another, and the development of world economy is the result of their reciprocal action and reaction. It is not, therefore, surprising that economists have been directing special attention to a study of the problem of the transformation of national economies in different countries and continents and of world economy as a whole[7]. At the present moment, liberalism appears to have gone to the wall, even in a country like England, and the sentiment of nationalism is getting the upper hand. The resistance to monopolistic organizations is growing weaker and individual initiative and individual control of industry are becoming the exceptions instead of being the rule. The ownership of capital is being divorced more and more from its actual employment. With the acquisition of political power, socialist

[7] See Dr. Falix Somary: *Wandlungen der Weltwirtschaft* and Dr. R. Wilbrandt: *Unsere Volkswirtschaft heute und morgen.*

parties are taking up a middle class attitude, and socialism, like liberalism, is shedding its humanitarian characteristics. State control over economic activities is extending and this tendency is being counteracted by international capitalist organizations, striving to monopolise production and distribution. This is the confusing medley of principles and policies out of which some sort of order has to be evolved. And the question now is whether the evolution will be intelligently and co-operatively directed or it will be only a drifting into the unknown. Some of the more important problems involved in the world's economic readjustment have been already discussed and we shall now proceed to deal with the interesting question of the supply and distribution of gold among the countries of the world and its effect upon prices. This is a problem of first class importance in the study of world economy, related as it is to international and intercontinental changes.

Before embarking upon that task, however, it will be worth while saying a few words about the international and the national aspects of the problem of unemployment. It is quite clear that the productive capacity of the world is to-day far in excess of the power of consumption it possesses, and public demand is not large enough to engage the services of all the workers that are employable. Certain industries and trades that depended for the most part for the offtake of their output on the demand of outside markets, cannot give employment to all who seek it, for the reason that the purchasing power of consumers abroad has

decreased owing to the fall in the prices of raw materials and food stuffs against which their manufactures are exchanged and also because foreign countries are themselves turning out goods which they used to import in the past. Rationalization of industry, undertaken with a view to reduce working costs and to enhance the competitive strength of industries, has also the effect of temporarily throwing labour out of work. The unemployed have to be supported at public cost, which means additional taxation all round and a heavy burden on industry itself. It is natural that people should be looking out for signs of improvement in the economic situation in the world, which may presage a revival of trade that will bring with it a foreign demand for goods and therefore for labour. This is, therefore, a question of international economic adjustment, and there is no hope of the return of prosperity in industrially advanced countries until people abroad are able and willing to buy from them.[8] There is, of course, the old method of achieving the object in view, to lend long-term capital to countries lacking it, to stimulate their economic development. This will provide an outlet for manufactures and raise the purchasing power of the borrowing nations. At least the savings of wealthy classes in countries like England and France, which are lying idle, will find investment if suitable avenues for foreign lending are found. In fact, this is what has long been suggested

[8]Appeals to the patriotism of people are being made, e.g., in England, to induce them to spend more and to purchase home-made goods, so that the home market may provide employment and contribute to the revival of industrial activity. "Spend more and use home-made goods" is the slogan.

and is now being systematically attempted. Agricultural countries of Europe have felt the need of long-term credits, and the question has been under the consideration of the League of Nations, whose Financial Committee recommended that an international financing institution should be established for the purpose of lending on mortgage to farmers in need of capital through local and national channels. The suggestion was promptly taken up and the International Mortgage Bank has just been started at Basle. The comment of the London *Economist*[9] on this new venture is instructive:—"But apart from the requirements of agriculture, there is a crying need for a diversion of a part of the existing plethora of short money into medium and long-term channels. To this end, and to the more even distribution of the available capital supplies of Europe, the new bank should make a substantial contribution, and we welcome its establishment as a useful addition to the mechanism of co-operative international finance." The recapturing of some of the old markets lost, is not so easy, particularly in cases where they have been occupied by local and national enterprise, and displaced labour cannot be readily re-employed. The Indian market for British cotton manufactures, which is almost lost for good, is a striking instance. The production of piece goods in Indian mills rose to nearly 242 crores of yards in 1929-30 as compared with 116 crores in 1913-14. Lancashire's share in the Indian imports which were reduced by 127 crores between the two years, fell from 95 per cent. in the last pre-war year to 65 per cent. in 1929-30, while Japan's

[9]March 7, 1931.

share rose from practically very little to 29 per cent. In other competitive markets, the exports to be successful, will have to be in special qualities of goods and on the principle of the division of labour based on both cheapness and variety. But the prevailing unemployment is on such a vast scale and its relief is so urgently required that the above slow methods are regarded as inadequate; and in England, for instance, the State is being called upon to start and finance large public works and thus create employment for the unemployed without waiting for the world situation to improve[10]. Hopes are pinned to the home market more than to the outside markets, and a campaign in favour of more spending on the part of people at large, is being carried on. Reliance, has thus to be placed on national action to supplement or take the place of international movement. Socialists would nationalise industries and would expect the State to provide work[11] for all on fixed wages, in consonance with a decent standard of living.

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[10]Read G. D. H. Cole: *Gold, Credit and Employment.*

[11]Read articles in the *New Leader.*

VI.

THE SLUMP AND THE WAY OUT.

Our discussion of the theories of crises and of the remarkable changes which have occurred in the mutual relations of the component parts of world economy has, it is hoped, thrown useful light upon the somewhat mysterious phenomenon of an extensive economic maladjustment and disturbance that is being witnessed to-day. It is clear that the process of re-adjustment is in operation and that its movement is irritatingly slow. There are bound to be ups and downs even in the course of this process, and the experience is extremely painful when there is a momentary relapse. Prices play an important part in the economic adjustments that are always taking place, as even in normal times, market conditions are never static. After the short boom period of ten years ago, a depression and a steady fall in the price level were inevitable. Owing to the inflation which characterised monetary systems in almost all countries of the world in war time and for a few years in the post-war period, and the consequent confusion which arose in the internal currency situation and the foreign exchanges, the movement of price curves could not but be erratic. Countries in Europe and outside, were not able to balance their national budgets and resorted to the doubtful but inevitable expedient of issuing additional currency and thus contributed to the further rise of prices. International trade is seriously hampered by fluctu-

ations in the purchasing power of money and by changes in the rates of its conversion into gold in different countries. Currencies of the world had widely departed from their gold bases, and until stability was restored to them, there was no hope of industrial and trade recovery. The International Economic Conference held in Genoa in 1922, therefore, recommended that countries which had abandoned the gold standard—they were the majority—should take early steps to revert to the old system. As Sir Henry Strakosch points out in his Memorandum on Gold and the Price Level,[1] the Conference did so "not because it regarded gold as a measure of value which could be relied upon to remain stable in all circumstances, but because it considered the obligation to exchange national currencies for fixed weights of gold (or their equivalents in money of other Gold Standard countries) as the most efficacious means of limiting the monetary circulations to the legitimate needs of exchange and because it regarded the stability of the exchanges—which this convertibility assures—as indispensable for the restoration and development of international trade, upon which the prosperity of the world largely depends." If, however, nations attempted simultaneously to give effect to this recommendation, a scramble for gold would inevitably arise and would result in wide fluctuations in the purchasing power of gold. The Conference, therefore, recommended the co-ordination of the demand for gold, the co-operation of the central banks and the regulation of credit, "not only with a view to maintaining the currencies at par

[1]Supplement to *The Economist*, July 5, 1930.

with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold."

During the six years that followed, one country after another successfully balanced its budget and reverted to the gold standard. In several of them, however, the standard unit had to be altered and devalued. In England it was possible to go back to the customary currency ratio, but in Belgium, France, Italy and other countries, this was not found to be practicable; and as we know it too well, in India, the currency was overvalued. The effect of this movement was to impart steadiness to prices with a tendency to a gradual fall. The Index numbers of wholesale prices compiled for the various countries of the world, clearly bring out the nature of this change. In the United Kingdom, taking 1913 as the basic year, we find that the index number was 160 in 1925, 150 in 1926, 140 in 1928, and 133 in 1929. In India, the figures also steadily declined from 159 to 141 during this period. The tendency of prices to fall steadily was visible in all countries, though the rates and the levels varied. And this was only to be expected. But what is most disconcerting in the extraordinary rapid downward movement in prices which began about a year ago and which has culminated in a serious slump. It is not the high or low level of prices as such that is the cause of economic evil, but it is the suddenness and rapidity with which prices go up or down, not allowing adjustments of the incomes and productive activities of the various classes of the community to be made, that causes dangerous dislocation of industry and trade and even material

distress. Look at the rapid fall which has taken place in the price level during the past year. The index number of wholesale prices in Great Britain fell from 132.8 in 1929 to 123.7 in January of 1930, to 115 in May of that year, to 101.9 in last November and to 95.3 in January, 1931. According to the statistics compiled by the London *Economist,* wholesale prices fell in India from the average of 141 for 1929 to 131 for January, 1930, to 125 in May, to 108 in October and to 101 in December last. According to the figures compiled by the Bombay *Labour Gazette,* the index number of wholesale prices in Bombay fell from 139 in January last year to 112 in November. The retail food index number for India shows a fall that is remarkably rapid and sufficiently accounts for the severe agricultural depression from which this country is suffering at the present moment. The retail food index number was 145 in January of last year, 137 in June, 127 in October and 116 in December. The fall has been the heaviest in some of the staple food crops of the country, like wheat, jowar and rice, and the fall in the prices of commercial crops such as cotton, jute and oilseeds has been equally serious. If we take the average prices of 1929 as 100, oil seeds were 105 in November, 1929 and only 58 in November, 1930. Raw cotton was 95 and 56 respectively. In the twelve months November, 1929 to November 1930, cereals came down from 97 to 59, pulses from 104 to 64, sugar from 101 to 81 and other articles of food from 99 to 79. The rapid and heavy fall in prices indicated by the figures quoted above, may probably be welcomed by certain classes of people, but the serious effect of the fall on

the vast mass of the agricultural population of this country and therefore on the national economy as a whole, it is needless to emphasise. The loss of purchasing power of the rural population, represented by the fall in the prices of the staple crops of the country, must tell heavily upon trade and industry and thus cause acute depression all round. The finances of the central and provincial governments and of State railways, have been adversely affected, and the slump has proved a national misfortune. The greatest difficulty will be presented by the internal re-adjustment of the agricultural industry, and increase in rural distress and indebtedness, will be a deplorable effect.

The position appears to be the culminating point of the process of depression which has been in operation for the last few years, but the fall during the past twelve months has been phenomenal and extraordinarily rapid, and the last stage in the movement was reached with disconcerting suddenness. Agricultural countries all over the world, have recently been finding it difficult to dispose of their output of food stuffs and raw materials, and this "overproduction" is "underconsumption" when looked at from the other side of depression. The imports of wheat into India at a time when the Indian crop has not been deficient, are significant in this respect. It is true that structural changes in the organization of agriculture have not been as striking as those in the manufacturing industries. Nevertheless, in the production and disposal of wheat, sugar cane, beet roots, rice, etc., notable changes have occurred, and countries in Europe, Asia and in

America have been equally affected. Russia is, at present, an unknown quantity in international exchange, and her influence on the world markets for agricultural produce must be uncertain and incalculable. But there can be no doubt that that country will be a powerful competitor in the world's markets. It has been calculated that while in recent years, the world population has increased at the rate of 1 per cent. per annum, world production has proceeded at a compound rate of 3 per cent. per annum. In view of this fact, one is entitled to question, as Sir Henry Strakosch does, "the validity of the popular notion that the accumulation of stocks of commodities coincident with the fall of the general level of prices of recent times is due to an unduly rapid increase of production of industry." He argue that "if the volume of production of the whole range of commodities that enter into the economic life of the nations is, on an average, increased by 3 per cent. per annum, then the producers of the individual commodities will all, on an average, have 3 per cent. more of the goods they produce to exchange with one another." A symmetrical increase of production, Sir Henry goes on to say, is nothing but a rise in the standard of life of people, which is capable of infinite expansion. This statement of the case reminds one of the exposition of the 'theory of the markets' as it used to be given by the classical economists, e.g., J. B. Say and his friends and followers; and it has been already discussed. The important assumptions underlying the argument should, however, be noted, viz., that goods move freely everywhere, that there are no local and national barriers and impedi-

ments of any kind in the way, that the increase in the output of goods of all kinds is proportionately equal, that national products are not specially favoured and protected in any country, in one word, that there is a free and unfettered movement of goods throughout the whole world on the classical principle of division of labour. To the extent to which the argument is not based on facts, it is devoid of validity.

The explanation that Sir Henry has to offer of the fall in prices, which is not to be attributed to excessive production, is that the disturbance has occurred because the media of exchange in the form of money of all kinds have not been available to an amount corresponding to the increased volume of exchanges necessitated by increased production. If it be argued that there will be no symmetry in the production of the various classes of goods, which is assumed, he replies that the regulator of prices will automatically bring the supply and the demand into conformity with each other, (a doubtful proposition when it relates to short periods), and therefore, the only decisive factor which need be taken into consideration, is the adequacy or otherwise of the supply of money required to make the machinery of exchange work smoothly. It follows that the general level of commodity prices will remain steady if there is no hitch in the turnover of goods, due to the lack of money and credit. But the size of the supply of the latter is dependent upon the available supply of gold, as practically the whole of the civilized world to-day or sixty per cent. of the world's population, are using money which is linked to gold. The

whole problem, therefore, reduces itself to the question, "Is the world's supply of monetary gold sufficient to provide the requisite media of exchange that the world needs?" Sir Henry answers emphatically, "No". His complaint is not so much that the potential supply of monetary gold falls short of the requirements as that the principal gold standard countries have not been making full use of their gold reserves by acting in co-operation with one another through the central reserve banks. Excessive quantities of gold lying in the reserves of certain countries are, as it were, put out of action, and to that extent, there is a deduction from the potential supply of credit and money needed by other countries. Sir Henry lays stress upon the solemn responsibility which lies on the shoulders of gold standard countries to allow gold reserves to go as far as they can, in satisfying their own monetary needs and the needs of other countries. The moral of international import he draws from the present maldistribution of gold among the nations of the world, may be given in his own words:—"It is rather extraordinary how widely spread the belief still is that the gold standard leaves the country adopting it in a position of independence, and that the benefits it confers can be had without any responsibilities. The truth that the gold standard has bound together the civilized world for good or evil in the greatest international partnership ever known in history, that this partnership, while conferring benefits on each partner, also imposes on them stern duties, and that transgressions by any one partner inflict hardships on the rest, is hardly realized."

He illustrates his thesis by quoting the examples of America, the Argentine Republic and France, who are alleged to have accumulated gold reserves far in excess of their reasonable needs. Thus it is shown that whereas the amount of Great Britain's gold reserves per head of her population was £3.3, that of the U.S.A. was, on an average, about £6.7, and that of France, £6.1 in 1928 and £8.0 in 1929. The reserves of the Argentine Republic are similarly out of all proportion to the needs of that country, and averaged about £9.4. The gold is practically sterilised in as much as it is not allowed to serve any monetary purpose, not being made the basis of a structure of currency and credit. This gold would have been useful in other countries if it had flowed into them and the world's monetary supply would have been adequate to the requirements of its exchange transactions. There is a parallelism apparent between the supply of monetary gold and the assumed requirements of 3 per cent. per annum and the fall in the level of prices. The deficiency of gold was moderate till 1928, but when we come to the year 1929, we find a deficiency of over 100 per cent. of requirements, accompanied by a sharp fall of prices The catastrophic fall of commodity prices in 1929 and the beginning of the next year, is, therefore, attributed to the gold-grabbing policy practised by the three guilty nations, mentioned above. The main count against them is stated in the following words:—"Not only was the whole of the new gold that had become available for monetary purposes in 1929 absorbed by the U.S.A. and France, but the two countries have, in addition, managed to deplete the reserves of some of the other

gold standard countries to the extent of £14 millions, after due allowance has been made for the release of £36 millions by the Argentine. Together they have in this manner sterilised gold to the value of £110 millions, and deprived the gold standard world of the possibility of augmenting the amount of currency and credit that was needed for the exchange of its increased production.''

Apart from the question of the accuracy and the utility of the statistics which have been employed in the exposition of his thesis by Sir Henry Strakosch and which were based on facts and experiences peculiar to England,—and these have been doubted,—it has been pointed out by some critics that if England has experienced a shortage of money, it is due to the fact that deflation became necessary in that country to maintain the pound sterling at the artificially high level—of course the traditional basis of English currency—to which it was raised in 1925. If, therefore, owing to deflation there is a shortage of gold and money in England, it cannot be presumed that the world crisis is also due to the same cause. It is not clear whether other important countries have suffered from a similar disparity between the quantity of gold and the volume of credit as England appears to have done. In India the Government has resorted to deflation on a large scale to maintain the rupee-gold ratio, while businessmen often complain of monetary stringency. Is the recent phenomenal fall of prices in India also to be attributed to the inadequate supply of credit and money or are we to understand that the prices have been falling in this country fully in sympathy with the prices

in the outside word? As has been frequently pointed out in the course of these lectures, it is dangerous to attempt to explain complicated phenomena by attributing them to a single or a simple cause. The United States and France have indeed accumulated large reserves of gold, and it will be readily admitted that each nation in the world has to recognise the obligations imposed by international interdependence and its duty of co-operating with other nations for the purpose of maintaining the stability of all and for the well-being of world economy as a whole as well as in its own interest. But different conditions prevailing in the different parts of the world must not be lost sight of. The difficulty with the United States and France appears to be that even if they are willing to part with portions of their accumulated gold, they cannot do it unless there are suitable channels and opportunities for doing so, which condition is apparently not satisfied.

The question of the future of the supply of monetary gold and its distribution among the nations of the world, has been recently investigated by the Gold Delegation of the Finance Committee of the League of Nations, and two reports have been issued. In the first of these, estimates of the supply of monetary gold that is likely to be available and the probable demand with which it will be confronted during the next ten years, have been attempted, and the conclusion is drawn that unless the strictest economy is exercised in the use of the yellow metal, the world will be faced with a considerable gold deficit with all its depressing

consequences. We give below a few of the relevant statistics which are held to support this view:—

I

Estimate of the Future Production of Gold.

Year.	Mill. Dollars.	
	Total.	Total according to Mr. Kitchin.
1930	405	404
1933	399	407
1936	356	397
1940	314	370

II

Estimate of Future Monetary demand if no economy is made.

Year.	Estimated Gold Production.	Available for Monetary use.	Excess or deficit of amount of new Monetary Gold compared with increment required to provide.			
			33% Cover if notes & sight liabilities increase at:		40% Cover if notes & sight liabilities increase at:	
			2% p. a.	3% p. a.	2% p. a.	3% p. a.
1930 ...	404	221	+57	− 29	+24	− 79
1933 ...	407	221	+43	− 55	+ 8	−111
1936 ...	397	205	+17	− 97	−21	−158
1940 ...	370	170	−34	−170	−74	−238

The second report is mainly concerned with the problem of distribution of gold, which is a factor that may influence the purchasing power of money. Normally, the distribution depends on the relative rate of economic development in different countries, on the monetary systems which are in force and on monetary policy. The Delegation points out that during the last fifteen years, the distribution of gold has been largely determind by non-monetary causes of a political and economic nature and more especially in recent years, by lack of confidence. The major changes which have taken place with reference to the functioning of the gold standard, are the withdrawal of gold from actual circulation, the generalisation of the gold exchange standard and the more general adoption of the percentage reserve system. The task of central banks has become more delicate, and owing to the increase in international indebtedness and the growth of the short term capital fund, the influence of capital and interest movements has increased relatively to that of the exchange of commodities. The whole organisation has consequently become more sensitive and the strain on the gold reserves more frequent. The remedies suggested by the Delegation rest on the principle of collaboration between central banks and co-operation between nations with respect to foreign loans. Improvement is, therefore, necessary in two directions, in the technique of the working of the gold standard and in the mutual relations of central banks and nations. Gold reserves play a double part. They form the basis of the structure of national credit and are employed to meet deficits in the international

balance of payments. If the deficits are of a temporary character, they may be met by the provision of short-term credits and if the disequilibrium is due to more durable causes, gold has to be allowed to flow from one centre to another so that it may exercise its full influence until equilibrium has been re-established or normal conditions have been restored by other means. It is possible that the fears regarding the shortage of the supply of monetary gold entertained by the Delegation, like other people, may be exaggerated, but it is undoubted that the existing delicate machinery of world economy requires a careful handling of its gold resources by means of co-operation and concerted action. And this idea is well brought out by the Delegation, which points out that countries, by adopting the gold standard, become thereby automatically members of an international system under which they assume a responsibility for conducting an economic and financial policy which will maintain confidence and facilitate the general working of that standard.

It is natural that, in the circumstances, the large accumulations of gold in America and particularly in France in Europe, should have attracted public attention and provoked adverse comment. It was likewise easy to connect these stores of superfluous gold with the severe depression from which the world has suffered during the past two years. The following table, taken from the *Economist*,[2] will be found interesting in this connection, showing as it does, how gold

[2]January 3, 1931.

holdings have fared in different countries during the two years, 1928-1930:—

Gold Holdings of Central Banks & Treasuries
(In £ Million.)

——	End 1928	End 1929	Change during 1929	End 1930	Change during 1930	Change during two years.
United States ...	770	802	+32	843	+41	+ 73
France ..	258	336	+78	426	+90	+168
Great Britain ...	153	146	− 7	148	+ 2	− 5
Germany ..	134	112	−22	108	− 4	−26
Japan ...	109	110	+ 1	77	−32	−31
Spain ..	101	102	+ 1	97	− 5	− 4
Argentine ..	127	91	−36	90	− 1	−37
Italy ...	75	76	+ 1	77	+ 1	+ 2
Australia ...	22	18	− 4	16	− 2	− 6
Belgium ..	26	34	+ 8	38	+ 4	+12
Holland ...	36	37	+ 1	35	− 2	− 1
Switzerland ...	21	21	+ 3	25	+ 1	+ 4
Canada ...	39	31	− 8	37	+ 6	− 2
Brazil ..	30	31	+ 1	6	−25	−24
Total ...	1,901	1,950	+49	2,024	+74	+123

The *Economist* has the following comment on the above table it has compiled: "During the past two years France and the United States have added £241 millions to their gold stocks, and now between them own over 60 per cent. of the total gold accounted for in the table. The chief losers over the two years have

been Germany, Japan, Argentine and Brazil, whose combined holdings have fallen during the two years from £400 to £282 millions. If to this reduction be added the net accretion of £123 millions to the world total, the result is a figure which corresponds to the combined French and American gains, so that in the aggregate the remaining twelve countries in the table stand practically where they did two years ago."

Now, there are two questions here which need answering. Are the large stocks of gold in France, for instance, to be traced to mere gold-grabbing on the part of that country or are they accounted for by some extraordinary economic movements over which the Bank of France had no control? There was considerable bitterness of feeling in England when France drew large quantities of gold from the Bank of England, rendering the reserve position of the latter, precarious at times and creating monetary stringency in that country. Careful inquiry into this question reveals the contrast between the positions of England and France in this that whereas the former country has a much less favourable trade balance than before the war, owing to a decline in exports and yet has undertaken short-term and long-term lending abroad, France has a more favourable balance and yet has no adequate opportunities for foreign lending. Owing to political uncertainty in Europe, the investor in France is not prepared to take the risk of lending abroad, and as a writer in the *Economist*[3] puts it, 'in the present position of Europe politics and economics are more closely

[3] December 20, 1930.

linked together than ever before'. This shrewd critic deprecates the view of those who attribute every crisis to the sins of central banks and expect these institutions to find a ready cure for all economic ills, and confirms the attitude we have taken to these matters of international relationship by saying that central banks cannot achieve miracles and that "if we are to have economic stability and material well-being, the first essential task is to establish and consolidate peace." There is an atmosphere of international distrust on the European continent, and conditions are far from favourable for the export of French capital and for the even distribution of gold among countries according to their need and demand. It is thus clear that the gold standard has not been functioning in a normal manner and that the machinery of world economy has not been working smoothly. None is more conscious of this than French financiers and officials themselves. That it is possible for national banks and treasury officials to ease the situation thus created, has been demonstrated by the negotiations that have taken place between England and France in recent months on the policy to be pursued by the Banks of the two countries in relation to the Anglo-French exchange and the inconvenient flow of gold from London to Paris. From an account of the work which is being done by the Bank for International Payments, that has been published, [4] one can easily estimate the value of the operations of that international banking institution in co-ordinating the capital requirements and supplies of the world. It has twentytwo partici-

[4] See the "Economist," February 18, 1931.

pating banks and it operates in twentyfour currencies. Its function is not restricted merely to the transfer of funds from the debtor nations of central Europe to their war creditors and it regards it as one of its important duties to facilitate the active expansion of long-term credits and foreign lending. But success of its work in this direction depends upon political tranquility and stability, and thus we come back again to the vital necessity of political peace as a condition precedent to the economic amelioration of the world.

It will have been clear by now from the facts and considerations which we have recorded so far that the attribution of the prevalent slump in prices mainly to the maldistribution of gold over the world, is an exaggeration. The diagnosis given by Mr. R. E. Becket, chairman of the Westminster Bank at the Bank's last annual meeting, [5] appears to lie nearer the truth. He maintained that the effect of gold accumulations in France and the U.S.A. had been overstressed, and observed:—"We are passing through, not so much a gold crisis, nor yet a credit crisis, but what I may term a "barter" crisis." Mr. Becket argues his case thus:— The majority of the population of the world are producers of primary commodities, and of these, nature has yielded bumper harvests recently, and a plethora of their supplies has driven down their prices. International trade being fundamentally an interchange of raw materials and manufactured products, the quantity of the latter which the primary producing countries will take from manufacturing countries, must depend upon the relative cheapness or dearness

[5]The Economist, January 31, 1931.

of the two classes of goods. There are numerous preparatory and finishing processes between the primary product and the finished product and at each stage productive costs of all kinds have to be added. When a violent fall occurs in the prices of raw materials the prices of finished products are completely thrown out of harmony with those of the basic constituents owing to the difficulty of reducing the intermediate costs simultaneously. The primary producer is not then able to take in exchange for his products that quantity of finished goods to which he is accustomed, to the impoverishment of himself and the manufacturer. This disequilibrium is a feature of all abrupt price movements, and the British manufacturer is not in a position to adjust his costs and his prices to the low purchasing power of the customer and to the competitive prices of his rivals. A disparity between the prices of primary products and manufactured goods, is a striking feature of the prevailing depression, as Mr. Beckett points out, and accounts, to a large extent, for the low purchasing power of the world's mass of population and the block in international trade.

As suggested in the introductory lecture, the severe depression which has overtaken the world since 1929, is a crisis, superimposed on the historic upheaval which resulted directly from the movements which disturbed world economy during the war and in the after-war period. An industrial boom and overspeculation on the stock exchange in America in 1929 may be taken as a phenomenon of the usual cyclical type, but it was accompanied by economic disturbances of a more profound character. The introduction of labour-

saving devices and processes in several leading industries led to the reduction of costs and vast outputs. Oversatiation of demand for commodities thus turned out, brought on a depression also in trades and industries which depended on the bigger enterprises. The technical improvements were not confined to manufacturing industries and were extended to agriculture. Extensive cultivation of land at a low cost with the help of power-driven machinery in the U.S.A. and Canada has introduced an economic revolution in the production of wheat not unlike what occurred with the extension of railway communication in the waste portions of the American continent in the second and the third quarters of the last century. Similar extension of land cultivation has taken place in Argentine and Australia, and the world market is over-stocked with food grains. Russia is likewise carrying out a vast plan of agricultural and manufacturing production with up-to-date machinery and methods.[6] The enormous quantities of cheap agricultural produce which has been thrown into the world market, have upset the agricultural economies of other countries, and they have been driven to protect their farmers by prohibitive and protective duties against foreign imports. Even in India the wheat producer in the Punjab and the United Provinces, has had thus to be protected by heavy import duties, and action was taken by the Government of India in April, 1931, in this matter. The lands settled a generation or two ago, in the U.S.A., have themselves felt the pinch of

[6]An excellent analysis of the problem of the crisis will be found in *Frankfurter Zeitung, December, 25, 1930.*

competition coming from the newly cultivated farms in the west, and there is a flight of agricultural labour to towns. As a shrewd observer remarks, here we have in operation the law of increasing instead of that of diminishing returns from land! During the fifteen years that succeeded the outbreak of the Great War, the world's acreage under wheat increased by over twenty per cent. and the countries of the American continent have made the largest contribution to this extention, and European nations have made systematic and earnest efforts to expand and improve their agriculture. The radical change in the constitution of world economy which this policy of European nations to be self-sufficient in the matter of agricultural production signifies, is well brought out in the following extract from an article in *Current History* [7]:—"It is hardly possible that the changes now being made in the economic system of Europe will not affect the other nations of the world. When in the early part of the last century the European nations, greatly to the detriment of agriculture, embarked upon a world-wide industrial and commercial expansion, no one foresaw the terrible climax of 1914. Producing too little food in comparison with their needs and too many manufactured goods, Europe had to invade foreign lands for food, raw materials and markets, and was forced to colonize. Competition and conflict, national ambitions and jealousies resulted in imperialism and the exploitation of other races. To-day the movement, though hardly perceptible, is in the opposite direction. People are working everywhere at high

[7] *February*, 1931.

pressure to produce food, and local markets plentifully supplied with money are beginning to absorb the surplus production." The writer sees in this new development a good augury for world peace because he says:—"The nations are learning to live within their own borders and by their own resources, and the masses are daily becoming healtheir, happier and better educated." By many this development will be ragarded, from the point of view of international division of labour and the interdependence of nations—the essential conditions of world solidarity —as an indication of retrogression rather than of progress. Whatever it is, the facts are there; and though the old national self-sufficiency, in idea and practice, can not be revived, the prevailing disturbance of economic international relations does constitute a true world crisis, as the changes taking place before our eyes, are nothing short of being revolutionary—a thesis which we have been propounding.

The effects of the world crisis on India have been referred to in appropriate places in the course of these lectures. The fall in the prices of the staple crops has hit the mass of the agricultural classes, which means the bulk of the population, increased to 35 crores according to the latest census, very hard, and has contributed to an increase in their indebtedness which was already heavy enough. The resulting loss of purchasing power has told visibly on other industries and trades. The imports of cheap agricultural produce is a menace to the indigenous industry, never too prosperous, and the situation conveys a warning which has to be seriously taken. India has to learn

from what the nations of central, southern and eastern Europe have done and are doing for their agriculture and their peasantry. In the domain of manufactures also there is a growing tendency in this country to encourage and promote indigenous enterprise, and foreign nations can expect to find a good customer only in a progressing and prosperous India. Owing to the general depression, the finances of the national and local governments are in a parlous state, and measures of social advancement are being held up or hampered. If it is admitted that the restoration of the gold standard in England at the pre-war ratio, has necessitated considerable deflation and has consequently acted to the prejudice of her export industries, it will not do to deny the fact that the 18 d ratio, fixed under the impression that internal prices had been stabilised at that level in relation to gold prices abroad, has had a detrimental effect upon the activities of wealth-production in the country. The Indian government has carried out currency deflation on a large scale and has had to sell its silver holdings to maintain the ratio, and it has also parted with its small gold stocks. India has not figured in the general discussions of world's currency problems for the simple reason that this country, in spite of its nominal gold standard, has practically little to do with gold, which is to-day a bone of international contention, and has no central reserve bank. It is significant that the establishment of a reserve bank was made a condition, in the conclusions of the Round Table Conference, precedent to the grant to the people of India power of financial control in the central,

federal government. Both Indian interests and sentiment demand that this nation, with a population which is over a sixth of the total of human souls in the whole world, will take its proper place in world economy and will discharge its international economic obligations to the benefit of humanity only when the right of its people to determine their economic policy and control their own action, is fully recognised. This is one of those vital questions which the world war and the world crisis have brought into prominence.

Just as in other countries, so in India, industrial and trade activity was stimulated during the war and the post-war periods. There was a boom in 1920-21 and then followed a depression. For a time, agriculture and manufactures were extraordinarily prosperous, and the values of land, securities and industrial shares rose to great heights. New industries were started and capital was invested in land, buildings, machinery and plant. The depression that followed, involved agriculturists and manufacturers alike in financial trouble. Some industries like steel, paper, matches, etc., received protection at the hands of the State, and the idea that all industries which there was a reasonable possibility of developing in the country, ought to be encouraged and supported by the public, was adopted as a principle of national policy. And this principle of economic nationalism is being steadily extended, and the possibilities of making the country self-supporting in the matter of salt and cotton cloth have been discussed. India is, nevertheless, still a predominantly agricultural country, and is greatly interested in the prices of her raw materials which have a market abroad and which

can be absorbed only partially within the country. Cotton, jute, rice, oil seeds, tea, wheat are the principal articles of export of this class, and industrial depression abroad means less demand for them and consequently a loss to the cultivating classes. India is encountering serious competition in the world's markets in the disposal of these primary products, and it is as deeply affected by the present slump as any other country. The question of regulating the acreage under various crops will have to be carefully considered if the depression continues for some time, and in any case, more economical methods of cultivation and marketing will have to be devised. The cultivator will need guidance and assistance in this matter, and the recommendations of the various provincial banking committees will have to be given effect to without delay. The State has a heavy responsibility to discharge in this connection, and financial difficulties should not be pleaded as an excuse for delay or indifference. Active promotion of industrial and agricultural activities will alone save the country from the evils of prolonged depression, unemployment and poverty. National action along these lines will secure for the country the relief and the benefit of the revival of world economy when it comes at last.

The outstanding features of the economic crisis in India may be briefly summarised thus: A remarkable fall in prices, particularly the large spread between the prices of raw materials and food stuffs on the one hand and of manufactures, on the other, has produced disastrous effects all round. Some of the prices have dropped below the pre-war level, and the agricultural

classes find it hard to meet their obligations, tenants not being in a position to pay rents and the landlords finding it difficult to pay taxes. The internal as well as the external trade of the country has received a serious setback, industries are languishing and unemployment, which is chronic among certain classes, has spread widely, carrying misery in its train. The country's poverty is notorious, and the evil has been aggravated by the continued depression. India's imports and exports in 1930-31 were valued at Rs. 164 crores and Rs. 225 crores as compared with Rs. 240 crores and Rs. 317 crores respectively during the preceding year. The financial position of the Government is extremely unsatisfactory. Currency has been contracted to the extent of over 100 crores of Rupees in the past five years, and the floating liabilities of Government have reached huge figures. Even in spite of all these efforts, the exchange can not be maintained, gold reserves are being fast depleted and the last sterling loan proved a failure. While the Indian Government's financial plight was deemed grave enough to necessitate and justify the Prime Minister's assurance to Parliament that the Imperial Government would give to the Government of India, if and when the need arose, requisite financial support, under suitable conditions, for the purpose of maintaining the credit of this country, the demand of public opinion on this side for fiscal and economic independence and the movement for economic self-sufficiency in India, are being stiffened. Such retrenchment and economy in public expenditure as is being attempted, is only adding to the spread and intensity of unemployment, and the condition of private employees is not

better. Labour is discontented and restive and employers have to face series of losses .The situation, taken as a whole, is thus as bad as it could be, and the prospect is gloomy. The continued uncertainty about the outcome of the prolonged discussions, now in progress, relating to constitutional development and, in particular, to the so-called "safeguards," whether in India's or Great Britain's interest, is also materially contributing to the economic depression and unsettlement. The distressing crisis is the resultant of a variety of forces, external and internal, political and social, working together; and the way out lies in the direction of suitable improvement in their operation, which means a clear understanding of the issues involved and timely and concerted action, national and international.

The state of world-economy has, in recent years, been like the condition of a patient suffering from a grave constitutional disease who, though in the way of slow recovery, finds his progress checked by frequest attacks of disorders of some kind or other. Two of the latest events of capital importance to world economy may be briefly referred to here as illuminating illustrations of the attitude we have adopted towards the central theme of these lectures. And these are the proposed Austro-German customs union and the American offer of a moratorium relating to war debts. In both these affairs, a conflict is evident between a consciousness of the urgency of international co-operation and hesitancy due to considerations of national political safety. After the wearisome talk one heard about a Pan-

European Union and the movement to pull down tariff barriers, it was expected that the proposed customs union between Germany and Austria would be welcomed, especially by French statesmen who had been the loudest and the most forward in the agitation for Europe's economic unity. But what do we find? As soon as two nations of central Europe decide to co-operate to revive their trade and industries by mutual agreement as regards tariffs, fears are expressed in influential quarters that the fiscal union may ripen into a political pact and union and be a menace to the stability and safety of Europe. Then again, realising that the financial collapse of Germany was imminent if immediate relief were not afforded to it, the U.S.A., the common creditor of the nations of Europe, proposed a moratorium. All nations welcomed the proposal, except France, who would not agree to it except on conditions calculated to provide against a political danger. And a banking crisis and a financial breakdown in Germany were averted only by the timely intervention of the Bank for International payments and the co-operation of other banks and nations. An outside observer is puzzled here by the exhibition which European statesmen have made of a wide divergence between their professions and practices, and is entitled to ask, how is world economy to revive in this atmosphere of suspicion and distrust in civilised Europe? Though it may appear cynical, he would feel justified in accusing European powers of having brought economic disaster upon the world by a destructive war and of impeding instead of assisting it to regain lost health. It is verily a second Industrial Revolution which has over-

taken the whole world, and things will have to be adjusted in the light of this conception of the phenomenon, and the old political and diplomatic tactics will serve no useful purpose.

It is a happy augury for the economic future of the world that a few responsible statesmen and leaders of thought are making sincere and strenuous efforts to bring to the minds of people the conviction that without international toleration, goodwill and harmony, it is not possible to rescue civilisation from the morass in which it sticks to-day, and the American offer of a moratorium and the support it received in the leading countries of Europe, is an encouraging sign of the times. The conviction is fortunately slowly gaining strength that the old mechanical conception of economic society, with its naked individualism, its unrelenting struggle for existence and its *laissez faire,* must be revised and that if world economy is to stand on the same footing of a reality as national economy, the sense of interdependence and solidarity of interset must grow among all the nations of the world. The East will have to find its due place in world economy, if the latter is to be worthy of its name; and the communities of the Orient will have to be looked upon not as objects fit for exploitation and, at the worst, as savages against whose invasion western civilization must be guarded at any cost, and who must be kept in a state of economic subjection in their own and the world's best interest, but as people who are entitled to economic freedom and political liberty, as much as the inhabitants of the West. Such orientation is implicit in a correct conception of world economy, and has to be squarely faced, however unpleasant the operation may be to many who speak glibly of international solidarity.

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